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Part 9

ORGANIZATION, STRUCTURE AND DECISIONMAKING PROCEDURES OF THE DEPARTMENT OF DEFENSE

HEARINGS

BEFORE THE

COMMITTEE ON ARMED SERVICES
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

NOVEMBER 10, 1983

Part 9

Printed for the use of the Committee on Armed Services

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ORGANIZATION, STRUCTURE, AND DECISIONMAKING PROCEDURES OF THE DEPARTMENT OF DEFENSE

THURSDAY, NOVEMBER 10, 1983

U.S. SENATE,
COMMITTEE ON ARMED SERVICES,
Washington, D.C.

PLANNING, PROGRAMING, AND BUDGETING SYSTEM

The committee met in open session pursuant to notice, at 10:08 a.m., in room SR-222, Russell Senate Office Building, Senator John Tower (chairman) presiding.

Present: Senators Tower, Wilson, and Nunn.

Staff present: James F. McGovern, staff director and chief counsel; James G. Roche, staff director for the minority; Alan R. Yuspeh, general counsel; Christine C. Dauth, chief clerk, Patrick A. Tucker, counsel; Michael B. Donley, Richard D. Finn, Jr., George K. Johnson, Jr., James R. Locher III, David S. Lyles, and Arnold L. Punaro, professional staff members; Karen A. Love, Patricia L. Watson, and Toni D. White, staff assistants.

Also present: John G. Campbell and Guy Copeland, assistants to Senator Warner; and Mark J. Albrecht, assistant to Senator Wilson.

OPENING STATEMENT BY SENATOR JOHN TOWER, CHAIRMAN

Chairman TOWER. The committee will come to order.

The committee meets this morning to receive testimony on the Department of Defense planning, programing, and budgeting system. PPBS is DOD's formal process for arriving at resource allocation decisions.

The recent GAO report describes it as one of the most highly developed resource management systems in the Federal Government.

As the Armed Services Committee reviews the organization of the Department, we are keenly aware that of all the changes that we might propose, those related to DOD's internal structure for planning and resource allocation could be the most sensitive and far reaching.

However, before we presume to recommend changes in this area, Congress must make sure that we fully understand the planning, programing, and budgeting system. It is very complex and should the only result of this hearing be a heightened awareness among members and the staff of how PPBS operates and how Congress affects the system, then our hearings will have been a complete success in explaining the PPBS process and addressing our questions in this area.

We are pleased to welcome Mr. Jack Quetsch, Principal Deputy Assistant Secretary of Defense, and Dr. David Chu, Director of Program Analysis and Evaluation.

Gentlemen, we are delighted to have you with us this morning. You may present your full prepared statements for the record and summarize them if you would like, or you may present your statement in its entirety. You may proceed, in any case, as you see fit.

Any matters you want to submit for the record will be incorporated in the record.

STATEMENT OF JACK QUETSCH, PRINCIPAL DEPUTY ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER)

Mr. QUETSCH. Thank you, Mr. Chairman. First, I want to express Mr. Puritano's regret that he was unable to testify this morning as scheduled. He was called to a meeting at the White House, and he sends his regrets.

I should like to make a few brief remarks and submit a prepared statement for the record.

The PPBS has been the framework for resource allocation for the Department of Defense since the early sixties. It has evolved over that time. It has proved to be flexible, flexible enough to meet the needs of many different administrations and the many different situations that those administrations have faced.

It has also been modified, as it has evolved over the years, to meet the needs of the military departments and to be responsive to fundamental military considerations that don't change from year to year significantly.

As you know, we need in an organization the size of DOD, with three million people, a set of disciplines and rules for making decisions, otherwise we would have chaos. We have to have a process, we have to write it down, and while it does lend itself to some criticism, we think that over the years the PPBS process has served us very well.

When this current administration came in, my boss, Vincent Puritano, was asked by the Secretary of Defense to review the whole PPBS process and to see what changes needed to be made.

The changes that resulted from that study are very important because they helped adapt the PPBS, a fairly constant but gradually evolving system to the particular style of Secretary Weinberger.

One of the most important aspects of the Secretary's philosophy is his belief in the centralization of the decisionmaking structure and in the decentralization of execution of those decisions. That philosophy can be expressed in many ways, but I think it becomes clearer when you see what changes were made in the PPBS.

The PPBS consists of three phases, the planning, programing, and budgetary phases. I won't go into the details at this time although the prepared statement does, but the Secretary found that in all three phases, there were some voices that weren't being heard to the extent they should be or in the way they should be.

To remedy that situation, he increased the role and expanded the membership of the Defense Resources Board [DRB] in the PPBS. In the planning phase, for example, the DRB became involved in the

review of the plan up front. One of the problems was that the way plans were stated left a lot of ambiguity and that quite often such ambiguity led to problems later in the PPBS process. Ambiguity provided the opportunity for decisions to be revisited in the programing and in the budgeting phases by people who exploited that ambiguity. The involvement of the DRB helped reduce that ambiguity.

In addition, Secretary Weinberger felt that Defense planning, in order to be executed on a decentralized basis, had to be made with the participation of the people who were going to do the executing. Such participation increases the participants' level of commitment and level of understanding of the plan and the reasons for it. In order to provide such participation, the Secretary expanded the membership of the DRB by adding the service secretaries as full members and inviting the service chiefs to participate in all the meetings.

The Deputy Secretary is the chairman of the DRB. After Mr. Thayer came aboard as Deputy Secretary, he strengthened the existing policy to strictly limit the attendance at the meetings to principals only. Again, this strengthened the role of the primary officers of the Department, the political appointees who were responsible to the people, and tended to diminish the influence of the staff in many of the major decisions.

There was another change which involved inviting the Commanders in Chief of the unified and specified commands to participate and comment during both the planning and programing phases. They also participate through the Joint Chiefs in the development of defense planning, and Dr. Chu can talk more about the details of their participation.

There is no doubt in any of our minds, I think—I should not go that far—in most of our minds there is little doubt that, in the planning phase, these changes have produced an improvement, have achieved the results of a more collegial atmosphere, and better understanding of defense planning and have produced clearer plans. Those improvements, of course, should be kept distinct from the articulation of those plans outside the building, which is for security reasons sometimes a separate thing.

This is not to say that it has all been love and kisses. There are differences. They tend to be more fundamental because we now bring more important people earlier into the planning process, but we think that such differences are healthy and that the process leads to their being resolved. In addition, these differences in the planning phase can be resolved in a less contentious atmosphere than in later phases when we are actually arguing about the allocation of resources to the specific weapon systems or programs.

In all, we think that PPBS improvements demonstrate that we aren't just doing business as usual in the Department of Defense. We are building stability into the defense program by changing and strengthening the most fundamental PPBS process and the role of the people who are engaged in that process.

I know that Members of Congress have criticized the PPBS process. We have not stopped criticizing it either, and we are always looking for ways to improve it. We have just finished with the GAO an unprecedented joint review of the PPBS. We decided it would be better

to work at this review jointly than to have GAO do it separately, and I think that has worked out to our mutual advantage in terms of the recommendations for consideration that were sent to both Deputy Secretary Thayer and Mr. Bowsher a short time ago.

In closing, I would just like to quote from that study, which is, I think, a fairly objective study. We did a lot of educating of GAO and they did a lot of question raising about things that perhaps we had thought we had resolved or had taken for granted. From page two of the study, I quote:

> One of the overall conclusions of the joint study was that DOD's PPBS continues to be an extensively developed and flexible resource allocation system that supports decisionmaking.
>
> Few, if any, other Federal agencies have done as much to systematically meet goals and objectives, establish needed fiscal resources and review results. Still there is room for improvement.

We are happy to discuss any proposals that this committee has, or to develop any that it is interested in.

[The prepared statement of Hon. Vincent Puritano, Assistant Secretary of Defense (Comptroller), follows:]

DEPARTMENT OF DEFENSE

STATEMENT OF

THE HONORABLE VINCENT PURITANO

ASSISTANT SECRETARY OF DEFENSE

(COMPTROLLER)

BEFORE THE

SENATE ARMED SERVICES COMMITTEE

ON

RESOURCE ALLOCATION AND PLANNING

IN THE

DEPARTMENT OF DEFENSE

NOVEMBER 10, 1983

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COMMITTEE

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Resource Allocation and Planning in the Department of Defense

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE. I ESPECIALLY APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE YOU TO DISCUSS THIS IMPORTANT SUBJECT. AS SECRETARY WEINBERGER NOTED IN HIS TESTIMONY TO THIS COMMITTEE LAST JULY, NO DECISIONMAKING PROCESS IS PERFECT; THERE ALWAYS IS ROOM FOR MORE IMPROVEMENT. WE RECOGNIZED THAT FACT EARLY IN THIS ADMINISTRATION. ONE OF THE FIRST ASSIGNMENTS I UNDERTOOK AFTER JOINING DoD IN JANUARY 1981 WAS TO REVIEW THE DoD PLANNING, PROGRAMING AND BUDGETING SYSTEM (PPBS), WITH THE GOAL TO MAKE IMPROVEMENTS. THE RESULTS WERE A SERIES OF RECOMMENDATIONS THAT THE SECRETARY APPROVED IN MARCH 1981 THAT HAVE, I BELIEVE, IMPROVED AND STRENGTHENED THE PPBS, ESPECIALLY THE PLANNING AND PROGRAMING PHASES AND THE PRIMARY DECISION-MAKING APPARATUS -- THE DEFENSE RESOURCES BOARD. AN ARTICLE THAT I WROTE DESCRIBES THE RESULTS OF THAT REVIEW AND, FOR THE RECORD, IS ATTACHED TO THIS TESTIMONY. ALSO ATTACHED ARE A COPY OF A MEMORANDUM ISSUED BY THE DEPUTY SECRETARY IN MARCH 1981 THAT DESCRIBES THE MANAGEMENT PHILOSOPHY WE HAVE TAKEN WITH PPBS AND A BRIEF SUMMARY CHART OUTLINING THE MAJOR FEATURES OF THIS PAPER.

I PLAN TODAY TO DESCRIBE THE PPBS AS IT NOW STANDS, NOTING STRENGTHS AND RECENT IMPROVEMENTS, AND TO DESCRIBE HOW THIS INSTITUTIONAL DECISIONMAKING PROCESS ACTUALLY WORKS TO IMPROVE THE RESOURCE ALLOCATION PROCESS.

I. A Description of the System and Recent Changes

The Defense Resources Board (DRB), chaired by the Deputy Secretary, has been strengthened and vested with authority as the major governing body of the Department's resource allocation process. These changes extend the Secretary's management philosophy of centralized policy formulation and decentralized program execution directly into the central resource allocation decision process. In addition to the Chairman of the JCS, the Under Secretaries and Assistant Secretaries of Defense, the Director of PA&E, the General Counsel, and the OMB's Associate Director for National Security Affairs, the DRB now includes as full-time members the Military Department Secretaries and has regular exchanges with the Commanders-in-Chief (CINCs) of the Unified and Specified Commands. In addition, the Service Chiefs are, in effect, de-facto members of the DRB and are invited to all meetings where major policy issues are discussed. Complete staff work is provided for each DRB meeting, but, to assure frank and candid policy-level discussion, attendance is firmly restricted to the principals.

The PPBS has three phases. The planning phase sets military goals and objectives. The programing phase develops programs for reaching those objectives. The inputs required for those objectives are budgeted and priced as precisely as possible in the third, or budgeting, phase. Each of these phases is more involved than I have just described here, but I will provide some more detail next.

All three phases are going on at any given point in time. For example, we now are reviewing the FY 1985 budget, planning

FOR FY 1986, AND BEGINNING TO EXECUTE THE FY 1984 BUDGET BASED ON THE LEGISLATIVE DIRECTION WE HAVE RECEIVED FROM THE CONGRESS.

THE PLANNING PHASE

THE PLANNING PHASE BEGINS EACH AUGUST WITH A REVIEW OF THE JUST-COMPLETED PROGRAMING DECISIONS FROM THE PREVIOUS CYCLE. THE RESULTS OF CONGRESSIONAL DECISIONS ON THE PRESIDENT'S BUDGET REQUEST (SCHEDULED TO GO INTO EFFECT THAT OCTOBER) INFLUENCE PLANNING AS WELL.

ALSO, LONG-RANGE PLANNING HAS BEEN INTRODUCED INTO OUR PROCEDURES. MANY OF THESE PLANS ARE RESOURCE-ALLOCATION TOOLS RATHER THAN STRATEGIES FOR MILITARY ACTIONS. FOR EXAMPLE, THE LONG-RANGE INTELLIGENCE PLAN PREPARED BY THE DIA ADDRESSES THE DEVELOPMENT OF INTELLIGENCE- GATHERING CAPABILITIES, PROCESSING CAPABILITIES, AND DISSEMINATION CAPABILITIES. IT IS NOT AN ASSESSMENT OF THE THREAT. THAT SORT OF THREAT ASSESSMENT IS AVAILABLE IN THE JOINT LONG- RANGE STRATEGIC APPRAISAL (JLRSA) AND THE JOINT INTELLIGENCE ESTIMATE FOR PLANNING (JIEP) PREPARED BY THE JCS.

THE DEFENSE GUIDANCE (DG) DEFINES THE THREAT AGAINST WHICH DoD PROGRAMS ARE MEASURED; STATES NATIONAL AND DEFENSE POLICY, OBJECTIVES AND STRATEGY; PROVIDES RESOURCE AND FORCES GUIDANCE, AND ESTABLISHES THE FISCAL GUIDELINES FOR THE UPCOMING PROGRAMING PHASE.

THE UNDER SECRETARY OF DEFENSE FOR POLICY IS RESPONSIBLE FOR MANAGING THE PLANNING PHASE AND FOR THE DEFENSE GUIDANCE ITSELF. HE USES A STEERING GROUP, WITH MEMBERSHIP FROM THE MAJOR ELEMENTS OF THE OSD STAFF, FROM THE OFFICE OF THE JOINT CHIEFS OF STAFF, AND THE SERVICES, TO MANAGE AND COORDINATE THIS EFFORT. THE FIVE- YEAR GUIDANCE CONTAINED IN THE DG IS REVIEWED IN THE DRB BY ALL THE MAJOR PRINCIPALS. IN ADDITION, THE

Commanders-in-Chief of the Unified and Specified Commands participate through their consultation with the DRB and through written comments on various drafts. After the DG is appropriately revised to reflect the results of that review process, it is reviewed and signed by the Secretary in late January or early February. This planning process is an integral factor in successful implementation of the philosophy of centralized policy decisions and decentralized execution.

The Programing Phase

In the programing phase, the Services and Defense Agencies develop programs that are tailored to meet the mid-range objectives in the DG and fit within fiscal guidance. In May these activity programs, in the form of Program Objective Memoranda (POM), are submitted to the Secretary for his review. That review, conducted by the DRB, is completed by mid-August and the Secretary directs, in Program Decision Memoranda (PDM), any necessary changes.

The DRB's Summer Review identifies any discrepancy between the mid-range objectives stated in the DG and compliance with the fiscal constraint. Duplications, overlaps, and missed opportunities for economies and efficiencies receive special attention, in addition to adherence to the Defense Guidance and standing policies. Since each Military Department, the Chairman of the JCS, and the OMB are representatives on the DRB, their staffs, as well as the OSD staff, are involved in the review and in the raising of issues based on the above criteria.

A number of issues are thus identified. As the Executive Secretary of the DRB and, with the help of the Program Review Group, senior representatives of the DRB members, I review these

ISSUES. THROUGH A PROCESS OF CONSOLIDATION AND SELECTION, THEY ARE CONSOLIDATED INTO KEY ISSUES.

THESE KEY ISSUES ARE THEN STUDIED BY TEAMS WITH REPRESENTATION FROM INTERESTED DRB MEMBERS, AND THE RESULTING STUDIES, INCLUDING A RANGE OF ALTERNATIVES WITH PROS AND CONS, ARE PRESENTED TO THE DRB FOR REVIEW AND DECISION. IT IS IMPORTANT TO NOTE THAT DISSENTING OPINIONS OF THE STUDY TEAM MEMBERS MUST BE IDENTIFIED IN THE STUDY, PROVIDING THE DRB AN OPPORTUNITY TO HEAR ALL VIEWS. DURING THESE REVIEWS, IN MID-JULY AND EARLY AUGUST, THE DRB MEETS DAILY FOR SEVERAL HOURS.

THE POMS AS AMENDED BY THE PDM THEN BECOME THE BASIS FOR THE SEPTEMBER 15 BUDGET SUBMISSIONS FROM ALL DOD ELEMENTS TO THE DOD COMPTROLLER.

THE BUDGETING PHASE

THE BUDGET SUBMISSIONS ARE EXAMINED FOR PRICING, PRODUCIBILITY, FEASIBILITY, SCHEDULING, AND FOR CONSISTENCY WITH ESTABLISHED POLICIES. THAT EXAMINATION IS IN SIGNIFICANTLY GREATER DETAIL THAN IN THE PROGRAM REVIEW. TYPICAL BUDGET REVIEW QUESTIONS WOULD BE:

ARE TRAVEL BUDGETS CONSISTENT WITH CURRENT POLICIES AND RESTRICTIONS? ARE BUDGETS FOR CONTRACTOR SUPPORT CONSISTENT WITH ESTABLISHED POLICY?

ARE THE END PRODUCTS CORRECTLY PRICED? CAN THE MANUFACTURER ACTUALLY PRODUCE AND DELIVER THEM ON THE PLANNED SCHEDULE?

ARE COMPONENT PARTS SCHEDULED TO BE DELIVERED IN THE ORDERLY RATES REQUIRED FOR THEIR ASSEMBLY? WILL LONG-LEAD ITEMS BE

DELIVERED IN TIME TO ALLOW PRODUCTION AS SCHEDULED, OR WILL THEY BE TOO EARLY SO THAT STORAGE COSTS ARE INCURRED?

WERE EXPECTED INFLATION RATES PROPERLY INCORPORATED? WAS INVENTORY TURNOVER IN THE STOCK FUNDS PROPERLY CALCULATED? WERE ADJUSTMENTS MADE IN RESPONSE TO VALIDATED AND ACCEPTED AUDIT FINDINGS?

DO FUEL BUDGETS MATCH FLYING AND STEAMING HOUR PROJECTIONS? ARE THOSE HOURS MATCHED TO TRAINING AND DEPLOYMENT SCHEDULES? ARE BUDGETED MAINTENANCE LEVELS WITHIN DEPOT CAPACITIES?

ARE THE BUDGET DETAILS IN CONFORMANCE WITH DEFENSE GUIDANCE, WITH THE PDMS, WITH OMB OR COMPTROLLER INSTRUCTIONS AND GUIDANCE?

THE OFFICE OF THE SECRETARY OF DEFENSE AND THE OFFICE OF MANAGEMENT AND BUDGET CONDUCT A JOINT BUDGET REVIEW WITH OMB BUDGET EXAMINERS PARTICIPATING IN OUR BUDGET HEARINGS. WHEN WE DISTRIBUTE THE EXHIBITS AND OTHER MATERIALS THAT CONSTITUTE THE SEPTEMBER 15 BUDGET SUBMISSION, COPIES ARE PROVIDED TO OMB JUST AS TO THE OSD STAFF AND, IN ADDITION, THE OMB'S NATIONAL SECURITY DIVISION COORDINATES ON THE BUDGET DECISION DOCUMENTS.

THE BUDGET REVIEW IS A FULL AND THOROUGH EXAMINATION OF THE MILITARY DEPARTMENTS' AND AGENCIES' BUDGETS. IT IS WHAT WE CALL A FULL COVERAGE SYSTEM. THE REVIEW IS NOT SELECTIVE, NOR IS IT RESTRICTED TO JUST THE INCREMENTAL CHANGES; THE BUDGETS FOR LONGSTANDING FUNCTIONS AND PROGRAMS ALSO ARE EXAMINED.

THE BUDGET REVIEW IN THE OFFICE OF THE SECRETARY OF DEFENSE (OSD) BEGINS IN MID-SEPTEMBER AND IS COMPLETED IN MID-TO-LATE DECEMBER WITH MOST DECISIONS COMPLETED BY MID-NOVEMBER.

Following that, the Secretary and the Director of OMB discuss any outstanding OSD-OMB budget issues, and in early December the Secretary meets with the President for his final directions and budget decisions.

Following those decisions, we begin providing exhibits and narrative to OMB for printing in the Budget of the US Government and for submission to the Congress in late January.

Efforts also turn to preparation of the Justification Books for the use of the authorization and appropriations committees. Although the bulk of these materials are prepared and submitted by the Military Departments and agencies, each book is reviewed by my office staff to assure the materials adequately represent the Secretary's budget decisions and are of high quality. In addition to the Justification Books, we provide budget overviews or special budget-related information. Foremost among these, of course, is the Secretary's Annual Report to the Congress. We consider these materials extremely important for the congressional review and have striven to make them all as informative as possible.

II. The System at Work

Thus far we have described the PPBS process, but that does not tell us how it actually works, or how choices are made when allocating available resources. If good choices are to be made, we must, of course, first have a good institutional decision making process. We have that. We have improved it. As we noted previously, we use the PPBS, and particularly the planning phase in the Defense Guidance to define the military threat we face and then to apply the appropriate military goals and objectives to meeting that threat.

THE NEXT TWO PHASES (PROGRAMING AND BUDGETING) ARE USED TO LINK THE NECESSARY DEFENSE RESOURCES TO THOSE GOALS AND OBJECTIVES. TO THIS END A NUMBER OF ANALYSES ARE PERFORMED IN MANY DIFFERENT DISCIPLINES AND OFFICES IN THE DEPARTMENT. THE COMMON GOAL OBVIOUSLY IS TO PROVIDE FOR OUR NATION THE BEST POSSIBLE DEFENSE IN THE FACE OF THE MILITARY THREAT WHILE MAKING THE MOST EFFICIENT USE OF OUR AVAILABLE RESOURCES.

THERE IS WHAT I WOULD LIKE TO DESCRIBE AS A FOURTH PHASE TO PPBS, PERHAPS BEST REFERRED TO AS "MANAGEMENT EXECUTION." WE HAVE SPENT A GOOD DEAL OF TIME AND EFFORT SEEING THAT ONCE A DECISION HAS BEEN MADE THROUGH THE ABOVE DESCRIBED PROCESS, THAT IT IS IN FACT CARRIED OUT IN AS EFFECTIVE AND COST-EFFICIENT A MANNER AS POSSIBLE. WE HAVE SET UP MANAGEMENT RESPONSIBILITIES TO SEE THAT JUST THAT HAPPENS.

ONE IMPORTANT EXAMPLE HAS BEEN THE IMPROVEMENT IN THE ACQUISITION PROCESS BEGUN IN APRIL 1981. OUR OBJECTIVES WERE TO REDUCE COST, MAKE THE ACQUISITION PROCESS MORE EFFICIENT, INCREASE THE STABILITY OF PROGRAMS, AND DECREASE THE ACQUISITION TIME OF MILITARY HARDWARE.

TO REDUCE ACQUISITION COSTS, WE UNDERTOOK A SERIES OF CHANGES, INCLUDING A STRONG EMPHASIS ON INCREASED PROGRAM STABILITY, ON MULTIYEAR PROCUREMENT, AND ON BUDGETING TO MOST-LIKELY COST. IT WAS CLEAR THAT, IN PRACTICE, THE COSTS OF PROGRAM INSTABILITY WERE SUBSTANTIAL. THERE HAD DEVELOPED OVER THE YEARS A TENDENCY TO START A PROGRAM AT OPTIMISTIC LEVELS AND THEN, AS RESOURCES WERE SQUEEZED, TO REDUCE PRODUCTION BELOW ECONOMIC PRODUCTION RATES, INCURRING COST GROWTH, AND PLACING INCREASED RISK ON THE CONTRACTOR. FIRST, WE COMMITTED TO MAKE THE HARD DECISIONS TO CANCEL SYSTEMS WE COULD NOT AFFORD AND TO FUND ADEQUATELY THOSE REMAINING, EVEN THOUGH THAT COMMITMENT REDUCED BUDGET FLEXIBILITY. THEN WE MOVED TO CORRECT THE

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TENDENCY TO OPTIMISTIC COST ESTIMATES BY INSTITUTING A POLICY OF RECOGNIZING THE COSTS OF TECHNOLOGICAL UNCERTAINTY AND REALISTICALLY BUDGETING TO MOST-LIKELY COSTS IN OTHER WAYS AS WELL. MULTIYEAR CONTRACTING HAS PROVIDED INCREASED STABILITY AND ALLOWED US AND THE CONTRACTORS TO TAKE ADVANTAGE OF PRODUCTION AND INVENTORY EFFICIENCIES WHICH ARE NOT POSSIBLE UNDER YEAR-TO- YEAR CONTRACTS.

WE ALSO HAVE INSTITUTED A PROGRAM OF INDEPENDENT COST ESTIMATES ESPECIALLY FOR USE IN THE SUMMER REVIEW. THESE ESTIMATES ARE PREPARED BY SPECIAL COST ANALYSIS TEAMS COMPLETELY INDEPENDENT OF THE PROJECT MANAGEMENT, BUT STILL HAVING ACCESS TO SERVICE AND CONTRACTOR DATA. THE COST ANALYSIS IMPROVEMENT GROUP (CAIG) PROVIDES TECHNICAL ADVICE AND ASSISTANCE AND REVIEWS THE ESTIMATES FOR SUFFICIENCY. TWO YEARS AGO, JUST 10 PROGRAMS RECEIVED THESE INDEPENDENT REVIEWS; LAST YEAR, 24 PROGRAMS WERE INDEPENDENTLY COSTED; AND NEXT YEAR WE HOPE TO HAVE INDEPENDENT ESTIMATES FOR 27 MAJOR SYSTEMS.

TO ASSURE THESE MAJOR AND RELATIVELY EXPENSIVE PROGRAMS ARE REVIEWED BY THE TOP DOD STAFF, INCLUDING THE SECRETARY AND DEPUTY SECRETARY, A SERIES OF SECRETARIAL PERFORMANCE REVIEWS HAVE BEEN INSTITUTED. DURING THESE REVIEWS, PROGRAM MANAGERS DISCUSS PROGRESS AND PROBLEMS WITH THE SECRETARY AND TOP STAFF AT REGULAR INTERVALS OF ABOUT EVERY THREE WEEKS. CURRENTLY, THE B-1, THE ADVANCED TECHNOLOGY BOMBER, THE MX, THE PERSHING II AND THE CRUISE MISSILE PROGRAM ARE UNDERGOING SUCH REVIEWS.

THE DEFENSE SYSTEM ACQUISITION REVIEW COUNCIL (DSARC) PROCESS WAS SIMPLIFIED TO REDUCE THE ADMINISTRATIVE BURDEN ON ALL CONCERNED BY SIMPLIFYING THE MILESTONE REVIEW PROCESS. AMONG THE CHANGES WAS THE INTEGRATION OF THE DSARC WITH THE PPBS. WE NOW MAKE MAJOR-SYSTEM-NEW-START DECISIONS IN THE PROGRAM REVIEW AND IDENTIFY FOR SPECIAL ATTENTION THOSE DSARC PROGRAMS NOT BUDGETED AT THE DSARC APPROVED LEVELS. THESE

CHANGES CONTRIBUTE TO PROGRAM STABILITY BY CAUSING EARLIER RESOURCE COMPETITION BY NEW SYSTEMS AND INSERTING AFFORDABILITY CONSIDERATIONS INTO THE DSARC ARENA.

THE ATTACK ON FRAUD, WASTE, AND ABUSE HAS RECEIVED A VERY HIGH PRIORITY FROM SECRETARY WEINBERGER. THE DOD INSPECTOR GENERAL MAINTAINS A HOTLINE FOR REPORTING INSTANCES OF FRAUD, WASTE, AND ABUSE AND VIGOROUSLY INVESTIGATES ANY SUCH ACTIVITY. HE ALSO SERVES AS THE FOCAL POINT FOR HOTLINE REFERRALS FROM THE GENERAL ACCOUNTING OFFICE, OPERATES AN INTERNAL AUDIT PROGRAM, AND AN AUDIT RECONCILIATION PROCESS. THE AUDIT RECONCILIATION PROCESS REQUIRES THAT MANAGERS EITHER IMPLEMENT THE AUDIT RECOMMENDATIONS OR SIT DOWN WITH THE AUDITORS AND DEMONSTRATE WHY THE RECOMMENDATIONS SHOULD NOT BE IMPLEMENTED. IN ADDITION, WE HAVE A FIRMLY ESTABLISHED ECONOMIES AND EFFICIENCIES PROGRAM CALLING FOR IDENTIFICATION AND IMPLEMENTATION OF CHANGES IN PRACTICES, PROCEDURES, AND OPERATIONS WHICH WILL REDUCE COSTS OR INCREASE PRODUCTIVITY AND A COUNCIL ON INTEGRITY AND MANAGEMENT IMPROVEMENT WHICH ASSURES A CONTINUED FOCUS AND HIGH PRIORITY IS GIVEN TO ALL THESE EFFORTS.

THE SECRETARY HAS INSTITUTED A PROGRAM TO CORRECT RECENTLY DISCOVERED PROBLEMS IN THE WAY SPARE PARTS ARE ORDERED AND PURCHASED. THAT PROGRAM CALLS FOR INCENTIVES TO INCREASE COMPETITIVE BIDDING AND FOR REWARDS TO EMPLOYEES WHO RIGOROUSLY PURSUE COST SAVINGS; FOR STERN DISCIPLINARY ACTION AGAINST THOSE WHO ARE NEGLIGENT; AND FOR NOTIFICATION TO OUR CONTRACTORS THAT WE EXPECT THEM TO PURSUE SIMILAR POLICIES. EACH SERVICE IS TO CHALLENGE ORDERS NOT MADE COMPETITIVELY, TO REFUSE TO PAY UNJUSTIFIED PRICE INCREASES, AND TO STRENGTHEN SPARE PARTS PRICING PROCEDURES. IN ADDITION, WE ARE ACCELERATING REFORM OF OUR BASIC CONTRACT PROCEDURES, MOVING TO RECOVER EXCESSIVE CHARGES, TO CHANGE SOURCES WHERE ABUSES WARRANT IT, AND ARE CONTINUING AUDIT ACTIVITY IN THE SPARES AREA.

III. Some Major Issues

The allocation of defense resources, as for most public sector programs, must depend on a set of rules or discipline as contrasted to the private sector where various market forces serve to allocate resources. In the Department of Defense, we have used the PPBS to make good use of resources and, equally importantly, to present issues in such a forum as to gain proper decision. It has become a participatory process within the Department of Defense, within the Executive Branch and clearly involves the Congress at several points before the final decision is made.

For instance, the type of programs and amount of resources to achieve the President's objective to modernize all five elements of our strategic forces represents an issue that was organized and presented within the PPBS. Questions such as the level of funding for all strategic modernization programs as contrasted to general purpose forces is another example. Readiness and sustainability levels contrasted with modernization and force level choices are examples of still other allocative decisions that are being made through the PPBS. Other analyses in this context include comparing the apparent growth in procurement budgets to those of the operating accounts, and determining whether there is a serious forward distribution of funds for procurement as contrasted to future operating costs. Creating the proper balance of these programs and funds I believe can only be achieved given the established decision making process that is now in effect.

The future decisions that we must jointly address cover such subjects as defense technology and the MX follow-on technology. Having the appropriate weapon systems and forces in place for the future is a function of today's research and analysis, and

THAT DEPENDS ON MAKING THE PROPER POLICY CHOICES TODAY THROUGH EFFECTIVE MANAGEMENT DECISION MAKING SYSTEMS SUCH AS THOSE I HAVE DESCRIBED.

IV. The Legislative Role

The efficient allocation of defense resources to meet our military and foreign policy objectives extends into congressional action on the President's budget request. Unlike many other functions of the federal government, the national defense budget is very much dependent on the annual appropriation process. Few defense activities are set by statute or placed on automatic legislative pilot and, therefore, are funded only after an annual review by the Congress. On the other side of the ledger, should the annual appropriation for defense be delayed just prior to or even into the budget year before authorization and appropriation of funds are complete, there is the risk of weakening our ability to execute the defense budget as we might otherwise be able to do.

The Budget and Impoundment Control Act of 1974 created a number of new opportunities for improving the defense budgetary process. Clearly, it was a legislative advantage as well as an advantage to our Department to complete all appropriations before the budget year began. Despite these institutional reforms, it still has been as difficult to achieve in practice as it has this year. As a result, ours is one of the three appropriations, of the 13 major appropriation bills that the Congress considers each year, currently funded on a Continuing Resolution Authority (CRA).

As I noted earlier in the statement, we never are dealing with one year at a time in the PPBS system. At this time, we are reviewing the FY 1985 budget to be presented to the Congress

EARLY NEXT YEAR; AT THE SAME TIME THAT BUDGET IS BEING CONSIDERED, WE MUST LOOK AT CONGRESSIONAL DECISIONS FOR THE FY 1984 BUDGET REQUEST THAT ARE STILL TO BE COMPLETED. THIS LEAVES A CERTAIN DEGREE OF UNCERTAINTY OR PROGRAM INSTABILITY CONCERNING OUR FY 1985 REVIEW, THE FY 1986 TO FY 1989 PROGRAM PLAN, AND ESPECIALLY OUR ABILITY TO EXECUTE PROPERLY THE FY 1984 PROGRAM.

IN THE PAST FEW YEARS, THERE HAS BEEN MORE AND MORE ATTENTION GIVEN TO FINDING SOME MEANS OF RESOLVING THIS TYPE OF PROBLEM. THE OBVIOUS AND PERHAPS THE MOST HELPFUL SOLUTION DIRECTLY AVAILABLE TO US IS TO COMPLETE ALL DoD APPROPRIATIONS BEFORE THE BUDGET YEAR ACTUALLY STARTS. AS I AND OTHERS HAVE MENTIONED, THIS IS OF PARAMOUNT IMPORTANCE, ESPECIALLY IN TODAY'S WORLD OF UNCERTAINTY AND INTERNATIONAL TENSION. ANOTHER POSSIBILITY, ALTHOUGH MORE INVOLVED FROM THE CONGRESSIONAL STANDPOINT, IS TO ALLOW THE DEPARTMENT OF DEFENSE TO CONTINUE TO OBLIGATE, AUTOMATICALLY, FUNDS FOR ACTIVITIES SUCH AS NEW STARTS AND MULTIYEAR PROCUREMENT PROGRAMS DIRECTLY INTO THE NEW BUDGET YEAR IN ORDER TO MAINTAIN A STABLE PROGRAM CONFIGURATION. ANOTHER POSSIBILITY IS TO IMPLEMENT A BIENNIAL BUDGET AS A POSSIBLE RELIEF FROM LATE APPROPRIATIONS AND CONTINUING RESOLUTIONS. IN ADDITION, PROGRAM MANAGERS WOULD BE INTERESTED TO HAVE MORE STABILITY, KNOWING IN ADVANCE WHAT RESOURCE LEVELS WOULD BE FUNDED FOR NATIONAL SECURITY.

SUCH STABILITY IS ESPECIALLY IMPORTANT TO THE DEPARTMENT OF DEFENSE. A PRIMARY GOAL OF OUR CHANGES TO THE ACQUISITION PROCEDURES AND TO THE PPBS WAS TO IMPROVE PROGRAM STABILITY. INSTABILITY IN PROGRAM AUTHORIZATION AND FUNDING LEVELS HAS RESULTED IN PRODUCTION AT UNECONOMIC RATES, FIELDING OF INADEQUATE NUMBERS OF SYSTEMS, AND AN UNWILLINGNESS BY MUCH OF INDUSTRY TO DO BUSINESS WITH DoD. A GOOD, STABLE BIENNIAL

BUDGET COULD IMPROVE OUR ABILITY TO MANAGE AND PLAN AND WOULD ALLOW US TO REALIZE ECONOMIES.

THUS, I FIND SOME MERIT IN THIS IDEA; HOWEVER, I ALSO NEED TO POINT OUT SOME HAZARDS. CHANGES TO A TWO-YEAR PROCESS WOULD REQUIRE CAREFUL AND DETAILED DEVELOPMENT TO PRECLUDE UNINTENDED PROBLEMS AND SIDE EFFECTS.

FOR EXAMPLE, 16 MONTHS ELAPSE FROM THE BEGINNING OF OUR PLANNING PHASE OF PPBS IN SEPTEMBER UNTIL THE SUBMISSION OF THE PRESIDENT'S BUDGET TO THE CONGRESS TWO JANUARY'S LATER. ANOTHER NINE MONTHS PASS BEFORE THE APPROPRIATION IS COMPLETE AND WE BEGIN EXECUTION OF THE BUDGETED ACTIONS. THAT IS 25 MONTHS FROM STARTING TO PLAN TO STARTING TO EXECUTE; 37 MONTHS FROM STARTING TO PLAN UNTIL THE EXECUTION YEAR IS OVER.

LENGTHENING THOSE TIME HORIZONS TO 37 MONTHS FROM PLAN TO APPROPRIATION AND 25 MONTHS PLUS 2 YEARS, OR 49 MONTHS, FROM APPROPRIATION TO THE END OF THE TWO-YEAR EXECUTION PERIOD WOULD CREATE SOME PROBLEMS.

ALSO, IN A TWO-YEAR CYCLE ACCURATELY BUDGETING FOR THE EFFECTS OF INFLATION WOULD BE GREATLY COMPOUNDED. DEVELOPMENT OF A SELF-CORRECTING, OR AUTOMATIC ADJUSTMENT, POLICY FOR FUNDING EXPECTED CHANGES IN PRICE LEVELS MIGHT BE REQUIRED.

THESE DIFFICULTIES, TOGETHER WITH THE POTENTIAL FOR SIGNIFICANT TECHNOLOGICAL CHANGE AND SHIFTS IN THE WORLD SITUATION OVER SUCH AN EXTENDED PERIOD, MEAN THAT A SERIES OF SUPPLEMENTALS AND AMENDMENTS WOULD PROBABLY BE REQUIRED. I BELIEVE THAT IF THOSE ADJUSTMENTS WERE NOT TO CLOG UP THE PROCESS BY COMPETING WITH THE ONGOING BIENNIAL REVIEW, WE WOULD

HAVE TO REACH NEW AND EXPANDED AGREEMENTS ON REPROGRAMINGS AND EXECUTIVE BRANCH FLEXIBILITY.

THE FURTHER AHEAD YOU LEGISLATE, THE LESS DETAILED THE LEGISLATION SHOULD BE. TO DO OTHERWISE WOULD MIRE US IN A SWAMP OF MICROMANAGEMENT AND UNCERTAINTY EXCEEDING TODAY'S PROBLEMS. THUS, WHILE ENTHUSIASTICALLY ENDORSING THE BIENNIAL CONCEPT, I ALSO URGE CAUTION, FORETHOUGHT, AND CARE.

IN OUR CONSTITUTIONAL SYSTEM OF GOVERNMENT THERE CAN, OF COURSE, BE NO QUESTION ABOUT CONGRESSIONAL POWER OF THE PURSE, AND MORE SPECIFICALLY OF CONGRESSIONAL REVIEW AND APPROVAL OF DEFENSE BUDGET REQUESTS. YET, I MUST ALSO STATE THAT THE CONSTANTLY EXPANDING NUMBER OF CONGRESSIONAL HEARINGS BEFORE MORE AND MORE COMMITTEES EACH YEAR HAS NOW REACHED THE POINT WHERE A VAST AMOUNT OF OUR MANAGEMENT RESOURCES MUST BE ALLOCATED TO THIS SINGLE PURPOSE. I AM HOPEFUL THAT THE CONGRESS WILL BE ABLE TO FIND MEANS OF ELIMINATING REDUNDANCIES AND DUPLICATIONS THAT MIGHT EXIST IN THIS PROCESS WHILE AT THE SAME TIME ENSURING THAT THEY RECEIVE ALL THE APPROPRIATE INFORMATION TO CONDUCT THEIR IMPORTANT RESPONSIBILITIES UNDER THE CONSTITUTION.

V. SUMMARY

THE PPBS IS A VIABLE PROCESS CAPABLE OF WORKING QUITE WELL GIVEN THE COMPLEXITY OF OUR NATIONAL DEFENSE STRUTURE, RECENT SHIFTS IN DEFENSE PRIORITIES RELATIVE TO OTHER FEDERAL PROGRAMS, AND THE EVER CHANGING PRESSURES OF WORLD EVENTS. WE ARE PLEASED WITH THE MANAGEMENT IMPROVEMENTS THAT HAVE BEEN MADE TO THE PROCESS SINCE 1981, MANY OF WHICH ARE BASED ON SECRETARY WEINBERGER'S BELIEF IN A CENTRALIZED DECISIONMAKING STRUCTURE COMBINED WITH A DECENTRALIZED EXECUTION OF PROGRAMS. AS A RESULT, I BELIEVE WE IN THE DEPARTMENT AND THE EXECUTIVE BRANCH, AS WELL AS THE CONGRESS, ARE IN A POSITION TO MAKE BETTER RESOURCE ALLOCATION DECISIONS.

THE DEPUTY SECRETARY OF DEFENSE

WASHINGTON D.C. 20301

March 27, 1981

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARIES OF DEFENSE
ASSISTANT SECRETARIES OF DEFENSE
GENERAL COUNSEL
ASSISTANTS TO THE SECRETARY OF DEFENSE

SUBJECT: Management of the DOD Planning, Programming and Budgeting System

On 13 February 1981, I directed a 30-day assessment of the DOD PPBS. The report was delivered to me on 13 March 1981. I have discussed it with the Steering Group, the Joint Chiefs of Staff, the Service Secretaries, the Under Secretaries and selected Assistant Secretaries. Your interest, frankness and professionalism during these discussions have convinced me that we have a unique opportunity to improve significantly the way we do our planning and manage our resources.

Based on the report and those conversations, the Secretary and I have decided on the following approach.

DoD Management Philosophy

The Defense management system will focus on the major missions that the Department of Defense must address to satisfy national objectives:

-- It will define the national military strategy necessary to support our foreign policy and provide security for our people.

-- It will help us achieve the integrated and balanced military forces determined by the Secretary to be necessary to accomplish that strategy.

-- It will help assure that we are significantly ready in all aspects to deter aggression and to succeed where armed intervention is necessary.

-- It will provide the framework necessary to manage the Defense resources effectively and to insure successful mission accomplishment consistent with national resource limitations.

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-- It will provide information to the Secretary to help him insure that the role of military power is properly considered in the formulation of national objectives.

Decentralization and Accountability

We will achieve better Defense management by working toward a system of centralized control of executive policy direction and more decentralized policy execution. Working with the Service Secretaries, the Chairman of the Joint Chiefs of Staff, and OSD staff, the Secretary and I will concentrate on major policy decisions, definition of planning goals and the allocation of resources necessary to strengthen the horizontal integration of our four Services into a balanced Armed Forces Team to meet our national military strategy. To support these policies and plans, we will hold each of the Service Secretaries responsible for the development and execution of the necessary programs and the day-to-day management of the resources under their control. Through this controlled decentralization, subordinate line executives will be held accountable for the execution of our approved programs and policy decisions. This will focus Service management efforts on improving the operational efficiency of each department.

This general principle, however, has two major corollaries. First, we must assure that accountability is specifically fixed, and that an improved process is available for DOD-wide performance evaluation and monitoring. Those who have the responsibility will be held fully accountable for results. I expect strong leadership and initiative by the civilian and military executives at all levels of the Department of Defense. They must manage well and assure that both the Secretary and I are kept informed on a continuous basis of major problems and issues before they surface in forums outside DOD.

Secondly, this concept must contain appropriate procedures and levers to assure that Department-wide, cross-Service and cross-command programs are planned, managed and evaluated. There must be sufficient flexibility to assure that Presidential and Secretary of Defense goals and priorities are recognized, met and maintained by the Services and line organizations. Examples include our nuclear forces, C^3I, DOD-wide manpower policies, mobility forces and others that cut across individual Service lines.

My staff managers in the Office of the Secretary of Defense will be responsible for providing the technical cross-Service mission analysis and evaluations necessary to insure that our actions effectively integrate the capabilities of the Services. In addition, through their review of program execution within the departments, OSD staff will provide to the Secretary and me independent assessments of the success of our overall Defense efforts.

Participative Management

A second major management principle that both the Secretary and I espouse and expect to utilize fully is that all those that have a legitimate interest in the outcome of a management decision should participate in the decision. There are many different internal points of view on major issues and legitimately so. We want to assure that these positions are fully articulated at the appropriate level. We also encourage dissent. We must all have the courage of our convictions and express them prior to the time of decision. Once the Secretary and I have made the policy decisions, however, we insist on full support in the implementation of those decisions.

This participative principle pertains not only to the OSD-Service relationship and internally within both OSD and the Services, but cross-Service as well. On the latter point, I would like more cross-Service dialogue to take place on major program development and implementation issues regardless of whether OSD staff initiates the process. The Joint Chiefs of Staff, as well as the CINCs, could initiate such dialogue. Alternatively, the Services, with their enhanced authority and responsibility, could acknowledge and move forward on DoD-wide opportunities that cut across Service lines.

Economies and Efficiencies

We all, as part of our management responsibility, have to assure that the large amount of funds being proposed for Defense are used wisely, effectively and efficiently. We must be more aggressive and imaginative in saving money by eliminating major overlaps or duplications and assigning priorities to all programs. I look to each of you to use your enhanced authority to bring about major savings and improved methods of operation. During the programming and budgeting process, we must be straightforward with each other in looking for economies and efficiencies if our new management system is to work. I expect to enforce the necessary discipline during the entire process. Game playing will not be tolerated. We should all remember that if we do not produce some real savings and lower costs in many programs, others will do it for us.

Specific Decisions

In order to assure we follow the management principles and meet the policy objectives I have stated above, I am directing that the following actions take place, effective today.

Improved Planning

I agree with the consensus that we must both improve strategic planning in the early planning phase of the PPBS cycle and strengthen long-range planning throughout the other phases of

the PPBS. This calls for a more disciplined planning process that will provide the framework, the goals and objectives, the appropriate military strategies, and the risks associated with the optimum allocation of available resources. They, in turn, should be based on military requirements that flow from a realistic assessment of near-term and long-term threats. The major issues that will arise in the programming phase and the major budgetary decisions that follow will be measured against these planning goals and threats, not only against available budgetary resources as in the past.

This improved planning process should address the larger strategic issues and problems facing the country. Resource constraints are an important part of this strategic planning activity. But we should not allow the strategic planning process to be too narrowly constrained by fiscal and program guidance. We need the correct balance to assure realistic, serious, and pragmatic strategic planning.

Therefore, to achieve this new planning policy, I direct that USD(Policy), with strong input from JCS and R&E Resource Planning, take the lead in designing this new and improved planning approach with inputs as necessary from other OSD staffs, the Services and the CINCs. I would like a detailed plan of action on how we should proceed within 30 days.

Improved Programming

In accordance with this controlled decentralization principle, the Services will have enhanced responsibility for developing, defending, and carrying out their programs. OSD staffs, as I have discussed above, will concentrate more on major DoD policy, planning and program issues, primarily those that cut across Service lines and programs and those that are of priority Presidential and Secretary of Defense interest. OSD will, with help from the Services, design and plan for additional standardization, joint programs and joint systems, to improve efficiency and reduce costs. I hope and expect the Services to join in this effort.

The OSD function becomes at the same time more difficult and more critical. OSD must help the Secretary and me manage the organization as a whole and help us identify major problems and issues in the total system in time to act.

During this immediate FY 83-87 programming phase and thereafter, all participants should be guided by the management principles enunciated above and be responsible for the following assignments:

	Lead Offices	In Coordination With
1. Overall Policy, Strategy, Force Planning, and Planning Guidance	USD/P	JCS, Services, CINCs, OSD (NSC)

	Lead Offices	In Coordination With
2. Resource Objectives, Planning and Guidance	R&E, MRA&L	OSD and Services, as appropriate; Comptroller
3. Fiscal Guidance	COMP, PA&E	OMB, White House, USD/P
4. Program Development	Services	
5. Program Unification and Standardization	R&E	OSD
6. Program Review and Evaluation		
- Consistency with policy	Nuclear: ISP Conv: ISA	PA&E, R&E, COMP PA&E, R&E, COMP
- Cost-effective force trade-offs, cross-Service balance and mutual support	PA&E	USD/P, MRA&L, R&E, COMP
- Cross-program, modernization, R&D	R&E	C3I, Policy Review, COMP, other OSD as appropriate
- Readiness, sustainability, other logistics	MRA&L	USD/P, PA&E, R&E, COMP
- Manpower program feasibility and efficiency	MRA&L	USD/P, PA&E, COMP
7. Budget Review; Cost Savings and Added Efficiencies	COMP	All of OSD, Services

As a first task, I would like each OSD lead office to provide to me a very brief paper, in 10 days, on how it would carry out its responsibilities for these assignments. Include your suggestions on how you plan to reduce substantially the information requirement of the POM preparation instruction and the budget estimate submission. Our objective will be to develop a POM that focuses primarily on major planning and policy issues.

I am setting the goal of cutting by at least 50 percent the POM documentation requirements associated with the current cycle (POM 83). It is my understanding that the response to the FY 82 POM requirements and instructions produced in one case, 2,691 pages of text and tables. Surely we can get by with half that, particularly if we begin to follow our new management principles. ASD(PA&E) should review the FY 83-87 POM preparation instructions and provide me a recommendation in 10 days on modifications that can be made to achieve the 50 percent reduction goal.

The Services also should be streamlining their internal programming and budgeting procedures. They should focus specifically on how they will provide the OSD staff and me the essential information we need to carry out our responsibilities. At a future date, I will ask the Services for a briefing and a progress report on how well they are doing.

Change of Role and Membership of the DRB

The DRB was established in April 1979 to help improve the efficiency of the PPBS, primarily by supervising the OSD review of Service POMs and the Budget Submission. I am now directing that the DRB role and membership be changed as follows:

DRB Membership

Chairman: DepSecDef		
Executive Secretary:	The Executive Assistant to DepSecDef	
Permanent Members:	ASD(R&E)	
Chairman, JCS	ASD(HA)	Associate Director/OMB
SecArmy	ASD(MRA&L)	
SecNavy	ASD(PA&E)	
SecAir Force	ASD(C)	
USD(P)	ASD(ISA)	
USD(R&E)	ASD(ISP)	

Role of DRB

The primary role of DRB is to help the Secretary of Defense manage the entire revised planning, programming and budgeting process. I plan to hold regular monthly DRB meetings and more often if necessary, to review proposed planning guidance; to manage the program and budget review process; to advise the Secretary of Defense on policy, planning, program and budget issues and proposed decisions; to perform program evaluations and reviews of high priority programs on a regular basis; and to assure that major acquisition systems are more closely aligned to PPBS.

I expect a limited number of major issues to be raised before the DRB. Lesser issues should be decided outside the DRB forum by consensus between the Services and appropriate OSD staff and recorded by appropriate decision documents. In all cases, the consensus must reflect Departmental and Administration policy. Where consensus cannot be reached, the issue will be referred to the DRB. I also expect full coordination of DRB decision papers well before DRB meetings.

DRB members must be more than advocates of their particular areas of responsibility; they must take a broader and deeper DoD view and help the Secretary and me manage far better, this complex organization.

ZBB

The PPBS report on this subject concluded that the costs of implementing ZBB far outweighed the beneficial results. Examples were given of the tremendous amount of staff time and paper used with little effective value. I agree with these findings.

Therefore, I direct the Comptroller to begin the process of reducing the negative effects of the ZBB process on our PPBS beginning now with the FY 83-87 cycle. I would like a detailed plan on how we can do this effectively and with minimum dislocations for my approval within 10 days. Please coordinate the detailed proposal with OMB. The idea of reexamining the necessity and desirability of continuing each program is a good one. The process by which we have done this is not.

Rationalization of Data Requirements

The move toward controlled decentralization and the assignment of more responsibility to the Services raises a number of issues on the level of detailed data formerly needed by OSD for centralized analysis and control. In keeping with this management philosophy, we will have to look to the Services to maintain an adequate data bank not only to manage and execute their programs but also to keep the Secretary and OSD informed. I expect that access by OSD will be as required to resolve issues and will be freely provided by the Services. OSD will continue to maintain those centralized data banks that are mandated by statute or necessary to support the Secretary in cross-Service analysis.

The use of that data by OSD must change. OSD should exercise its access not to provide an alternative detailed analysis of Service programs but to provide the necessary joint program, cross-Service, and Secretarial priority program analysis, review and evaluation. This of course does not preclude suggesting alternatives should this be desirable; but the development and presentation of alternatives is the responsibility of line management in the first instance.

I want to assure we have a better definition of this complex issue on level of detail, data banks and categorical formats. In addition, I want to reduce further the paperwork in the PPBS and to begin to rationalize the usage of the many varieties of categories and data bases required internally and externally.

To do this, I direct that a study be mounted to develop a more consistent framework of data bases and to reduce the level of data required among OSD and the Services. An inter-OSD-Service team led by the Comptroller as chairman should do an in-depth problem analysis and array options for cutting down the massive data requirements. Please include the OMB and legislative requirements. I expect this report in 30 days.

Transition FY 83-87

We should begin to move toward the improved PPBS immediately. I direct USD(Policy) to prepare draft FY 1983-87 policy guidance, PA&E and Comptroller to prepare draft fiscal guidance and USD(R&E) and MRA&L to prepare draft resource objectives and planning guidance within 10 days. USD(Policy) should take the overall lead to pull the entire draft policy guidance package together and distribute it for review to all appropriate OSD and Service staffs. I then expect to hold the first meeting of the newly reconstituted DRB to review and approve the draft policy and fiscal guidance.

I expect a significantly reduced POM to be prepared by the Services by 15 June 1981.

The Secretary and I, in consultation with the Director of OMB, have decided that the joint OMB/OSD budget review will be continued. The precise form and nature of this review will be developed with OMB in the next several weeks.

I will regularly review progress toward achieving this new revised PPBS. As we go through the FY 83 process and begin the FY 84 planning, I will keep open the options of a biennial POM and combined program-budget review in the next cycle. Much will depend on our progress this year.

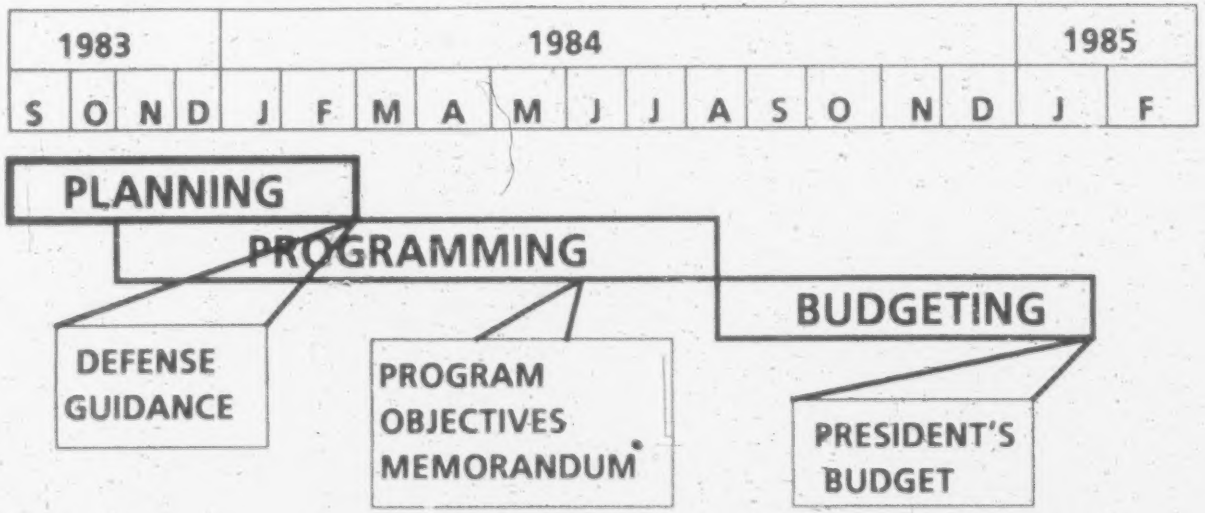
DoD Performance Review Process

The Secretary and I will soon be instituting a strong management review process through which goals, objectives, and milestones will be established and regularly reviewed by the Secretary and me for each major program.

I appreciate the time and interest you have provided during this review. Achieving the goals the Secretary and I have set will not be easy and will take time. The Secretary and I expect and know we will receive your full cooperation and your personal leadership over time to achieve our joint overall objective of revitalizing American military strength.

Frank C. Carlucci

PLANNING, PROGRAMMING & BUDGETING SYSTEM



- National Security Policies & Objectives
- Threat Assessment
- Policy & Strategy Guidance
- Force Planning
- Resource Planning
- Fiscal Guidance

- Service Program Definition and Development
- POMs Proposed
- DRB POM Review
- PDMs (Program Decision Memoranda)

- Service Budget Formulation and Submission
- OSD/OMB Review
- PBDs (Program Budget Decisions)
- President's Budget to Congress

Streamlining PPBS—The Planning, Programming, and Budgeting System Had Developed a Rickety Track—Among Other Problems

(By Vince Puritano, the Executive Assistant to the Deputy Secretary of Defense)

The Reagan Administration came into office pledged to revitalize American military strength—and to do so *in the most effective and economical manner*. This was the objective that led to the announcement last March by Secretary of Defense Caspar Weinberger of significant changes to the Planning, Programming, and Budgeting System (PPBS) of the Department of Defense.

PPBS is the complex and long-term process whereby mission needs are identified, matched with resource requirements, reviewed, and finally translated into budget proposals. By 1981, the existing PPBS had grown topheavy and congested with paperwork and detail. Planning was not in step with fiscal realities, and a proliferation of structures and data bases were working against smooth flow of the PPBS cycle. While the system was still meeting its basic objectives, it certainly was not doing so in the most effective and economical manner.

The changes that Secretary Weinberger announced in March included:

Modifying the existing PPBS to reflect a shift to greater emphasis on long-range strategic planning;

Greater decentralization of authority to the services;

Closer attention to cost savings and efficiencies;

Elimination of most of the paperwork required by the Zero Based Budget (ZBB) system;

A restructuring of DOD's top management board, the Defense Resources Board (DRB);

An increase in the responsibilities and roles of the Service Secretaries;

A change of roles and relationships between the various OSD staff agencies and the services;

A new process for management review by the Secretary of progress toward objectives in major programs;

A general streamlining of the entire PPBS.

The significant changes were begun immediately with the FY 83–87 program budget. Total implementation of the changes—particularly a fully structured strategic planning process—will take a year and will be completely effective for the first time in the preparation of the FY 84–88 budget.

These changes were recommended by an internal DOD task force, organized and led by the author of this article at the direction of Deputy Secretary of Defense Frank Carlucci, who on February 13—less than three weeks after the new Administration took over—ordered an assessment of the Department's PPBS to be completed within 30 days. The steering and working group that conducted this review consisted of uniformed and civilian DOD professionals, all with wide previous experience as well as current responsibilities in managing PPBS.

The review was organized to provide maximum participation by every major OSD staff agency and each of the services to assure that all points of view would be expressed, both in the analysis and in the decision phase of the review.

Group members drew on their own experiences, surveyed recent studies by consultants and other outside groups, took recent DOD internal reviews into account, and interviewed current and recently departed officials. The group analyzed the problems and issues, discussed alternative solutions, and then presented a report with recommendations and options.

This article relies heavily on the work of this group and is based in great part on their various draft reports.

Problems With Existing PPBS

The DOD PPBS process has the objective of preparing and executing a budget that is larger and more complex than any other agency in government. The quick, 30-day assessment was not designed to analyze in-depth how well this objective was being met. The existing process was accepted as basically meeting that objective. The focus of the effort was, instead, to delve into internal process problems quickly, analyze their characteristics, array and discuss the key issues, and focus on options for improvements that would make the DOD PPBS even better.

It became increasingly clear as the review progressed that the accretion over years of differing objectives and management styles calling, first, for programming emphasis, then participatory management, and recently zero based budget-

ing, with major characteristics of each imbedded simultaneously in the DOD PPBS, had created serious total system distortions.

The McNamara PPB system created the Five-Year Defense Program (FYDP) and interposed OSD programming direction and primacy between JCS planning and service budgeting. It was developed in response to a management style and a set of circumstances which have changed markedly over the intervening years. Programming—i.e., the structuring of resources by mission—was a new concept in 1960. The military services had since incorporated programming into their own budget preparation. They had created extensive programming organizations with well-trained and experienced staffs to respond to the widespread program interests in Manpower, Reserve Affairs, and Logistics; Under Secretary of Defense Research and Engineering; Program Analysis and Evaluation; and various policy offices within OSD.

The Laird management style and resulting process of participatory management was subsequently overlaid on the McNamara PPBS. More programming initiative was given to the services but, simultaneously, there were initiatives in the opposite direction to centralize the process for acquisition. Later, the Carter Zero Based Budget (ZBB) system, which emphasized annual total review rather than stable multi-year planning and called for analyses at three fiscal levels, was added to—rather than integrated with—the DOD PPB system. This combination of three disparate systems had heavily overburdened DOD staffs and aggravated the confusion of the role of staff and line functions within OSD. The separation of JCS planning from the service budget process caused by the imposition of OSD programming was an additional problem that had not been adequately addressed.

There were two major problems in the programming and budgeting phases of the PPBS. One was the residual confusion of roles of the line and staff functions in OSD, and the other was the failure of ZBB to aid the Secretary in the management of the department while adding to the data and paperwork load.

The confusion of line and staff roles was a residual of Secretary McNamara's reliance upon OSD staff to initiate as well as review programs. Although Secretary Laird placed program initiation with the services, there were a number of subsequent countervailing influences which favored centralization. These influences included: the failure to create a credible planning system; the greatly increased demands from Congress which had created its own budget process competing with the Executive Branch and also greatly expanded its staff; and the emergence of cross-service planning for major programs. These trends encouraged continuation of OSD directive programatic guidance to the services, generating additional paperwork and creating strong adversarial relationships between OSD and the services.

The second major programming problem was the failure of Zero Based Budgeting. The theory of Zero Based Budgeting is quite adequate for a small organization with consistent goals. It is, however, not designed for large, multi-level hierarchies where subunits may have competitive goals. The size of the DOD forced the "rationing" of decision packages to field organizations. The competitive nature of the budget game also forced "gold watches" (high priority programs) into the margin. In addition, the ZBB features of multiple budget levels, narratives, and prioritization created large volumes of paperwork which proved essentially useless since neither the Secretary nor OMB felt that the resulting displays were useful for decisionmaking. One service estimated that traditional budgeting required the preparation of 350 reports. ZBB added approximately 800 additional reports (Decision Unit Overviews and Decision Package Sets) which did not replace the traditional budget reports. The system had not proven useful in presentations to higher levels. The ZBB concept simply had not worked.

The succession of systems also greatly expanded the data structure so that the FYDP was no longer the common, basic data base of the PPBS. A variety of competing formats, structures, and data banks evolved. This shifting of classification of defense activities and the expanding efforts necessary to respond to and maintain the various data banks led to duplication of data requests, displays, and paperwork and worker overload.

PROBLEMS IN PLANNING PHASE

The Joint Strategic Planning Document (JSPD), the most complete force planning document in the DOD PPBS, was not fiscally constrained. It usually contained higher force levels than could be accommodated within the fiscal guid-

ance. While useful in assuring that arbitrary resource constraints do not dictate our overall military strategy, it resulted in force planning out of line with real resource constraints. In these circumstances, it became irrelevant or useless during the programming and budgeting phases.

Recognizing this problem, the JCS provided "Risk Reduction Measures" (RRM) in the last three annual planning documents. These measures recognized that the unconstrained planning force was not likely to be affordable within the mid-range (3–10 years ahead) period; they thus attempted to identify the most critical areas of risk.

In fact, however, even the JSPD risk reduction measures were of limited value. Their programmatic focus and structure (a brief description plus funding profile) tended to reflect the current programmatic emphasis, as opposed to planning emphasis, and provided poor linkage to the planning objectives, strategies, and problems with which the measures sought to deal. Also, their content suggested apportionment of risk by service dollars, rather than as assessment of total risk by functional warfare or contingency areas.

The design (i.e., sizing and structuring) and assessment of the total force could not be effectively accomplished without unambiguous, but broad, guidance on the peacetime/crisis/wartime priorities to be accorded the various missions and theater contingencies. Planning guidance (i.e., criteria and assumptions on which force size and structure are based) should be issued before force building or assessment can begin. This was done, however, on an ad hoc basis for each item of approved guidance.

Although there is a sequence of planning development from JCS and services to SECDEF culminating in the Defense Policy Guidance (DPG), there was no high-level dialogue in the process. The JCS (and other DOD policy bodies) generally were forced to rely on "literature searches" of SECDEF speeches, congressional testimony, presidential statements, and National Security Council (NSC) and State Department memorandums, directives, and policy statements to derive and develop implicit national and defense policy.

There was only sporadic articulation of short-term deficiencies bearing on theater contingencies and other missions. There was also a tendency to overestimate the potential success and stability of current programs together with the effectiveness of new systems being fielded. At the same time, there was an inadequate long-term vision and differentiation between solving short-term problems and dealing with longer-term obligations. There was also no connection between near-term contingency employment concepts based on current force capabilities and the longer-term strategies and contingency capabilities implied in the unconstrained force. There were no steps in the later phases of the PPBS that dealt with these fundamental discrepancies.

There was also a mismatch not only between stated U.S. policies and the current capabilities of the forces to implement these policies, but also between policies and planned longer-term capabilities. In effect, DOD had traded near-term readiness for long-term investment within the relatively constrained Defense budget projections. The problems are, of course, that tomorrow's objectives expand rather than contract; threats out-pace our own efforts to deal with them; and the FPDP never delivers as it promises.

PROBLEMS IN PROGRAMMING PHASE

It was generally agreed that there was an overabundance of program direction in the Consolidated Guidance and an inordinate amount of detail data being requested in the program preparation instructions. This detailed guidance resulted in military department documents that were so large as to be undigestible by any one individual. In turn, these detailed proposals, when compared to the detailed guidance, give rise to a large number of detailed issues, all of which were addressed by the DRB. Also contributing to the large number of issues was the fact that DOD fiscal projections were not sufficient to fund all the objectives stated in the program guidance.

Although the DRB is the SECDEF's corporate review board, it did not include as a permanent or associate member any service representation, although the services provided observers on call. The multitude of detailed program issues, ZBB requirements, and the resultant detailed work demands on the services and the OSD staff had the effect of focussing most of the review effort on the upcoming budget year rather than on the full five-year program. Top DOD officials

complained that they could do little or no realistic thinking about out-year issues and their implications.

In addition, in the middle of the program cycle, the Joint Program Assessment Memorandum (JPAM) was issued by JCS after their review of the service POMs. It was an assessment of the military risk involved in the service programs. Because of the timing of the JPAM and the tendency of the JCS not to play an active part in the programming cycle, JCS views often were not incorporated in the issue papers.

Program instability reflected some apparent shortcomings in the current programming procedures. For instance, there were 160 Priority Change Proposals (PCPs) in the last budget phase for programs that had been "decided" in the programming phase. In the Navy shipbuilding program, an area which by its nature should be long-term and stable, major initiatives were alternatively inserted and later dropped out as the cycle progressed. Because of the number of months the process took to come to a decision, all of the efforts by the many technical and contract offices were done and redone. Tough decisions were put on hold until the final days of the cycle.

Another symptom of overcontrol is the abundance of "major" issues. Issue papers are developed by OSD staff in at least seven areas: Strategic Forces; Theater Nuclear Forces; General Purpose Forces; Communication, Command and Control; RDT&E; Manpower and Logistics; and Intelligence. In the past PPB cycle, 150 issues were generated and 375 "thumbnail sketches" (one-page issue papers) were submitted by OSD, Office of Management and the Budget (OMB), and the Arms Control and Disarmament Agency to the DRB. Each of these papers contained a staff alternative to a service program and all had to be reviewed and discussed by various staffs during the programming cycle.

PROBLEMS IN THE BUDGETING PHASE

The end result of over one year of DOD planning, programming, and preparation of budget estimates was the presentation each year of the President's budget to the Congress. Immediately preceding this presentation, in late December, DOD experienced a phenomenon referred to as "tail-end perturbations." Sudden late changes to the budget estimates and supporting programs were brought on by late OMB and presidential decisions on fiscal levels, programs, and/or a revised inflation forecast. These new data had to be quickly incorporated into a myriad of documents without disturbing balances painstakingly developed over a course of several months. The result was often a crash series of meetings culminating in conflicting guidance and unbalanced resource allocation for some program areas. Aside from the fact that the timing, management, and the impact of this annual phenomenon tended to reduce confidence in the integrity of the system, there was a persistent "ripple effect" on program justification to Congress, reorientation of policy, and implementation of budget decisions.

Excessive paperwork in the budget phase also reached the point of nearly breaking down the whole system. This has occurred in the past four years as ZBB procedures quadrupled the numbers of exhibits, listings, displays, and formats of data presentation. As a result, OSD, service, and OJCS staffs all complained of the inability to provide quality work in a timely manner.

Another major problem in budgeting has been the inability of the system to produce a consistent set of categories to describe the activities within the budget from early planning through to the congressional submissions. As a result, much time is spent in translation routines during which inconsistencies, or apparent inconsistencies, are created. When the latter occur, justification of the congressional categories is sometimes allowed to drive programmatic decisions.

The need to explain costs in appropriation categories led to the creation of large "budget back-up" or budget justification books which took information from program formats and transcribed it into other displays. Contradictions or perceived discrepancies between the various displays also generated significant workload in preparation of explanations.

SYSTEM-WIDE PROBLEMS

Revisitation of decisions regularly occurs in the current PPBS environment. Issues though to have been decided in the programming phase were often resurrected in the budgeting phase by OSD, OMB, and the services. The vast and varied number of participants, excessive preoccupation with paperwork and de-

tails, a hectic pace, inconsistent categorizations, and the year-long demands of the process all added to the problem.

Neglect of execution was also evident. The emphasis—and the reward—for years has been in the front-end justification of programs and the obtaining of appropriations. In addition, the time of managers at all levels in DOD is focused on shepherding their programs through the various PPBS cycles. Program execution functions are generally neglected and only limited feedback to policymakers/programmers to improve subsequent cycles is built into the process.

There was a widespread perception that significant discontinuities exist between the PPBS and Defense Systems Acquisition Review Council (DSARC) processes, the two major resource decision systems in DOD. Symptoms of problems can be seen in the continual conflicts surrounding and disrupting acquisition programs, the confusion over program costs, and resulting program quantity adjustments.

Along with the problems and issues arrayed above, there was also lengthy discussions in the steering and working groups on role and membership of the DRB, and the role of OMB in the joint review.

STEERING GROUP RECOMMENDATIONS

After analyzing the problems and alternative solutions, the steering group reached consensus on a number of options for improvement. The steering group endorsed:

The need for greatly improved strategic planning at the beginning of the PPBS cycle and improved long-range planning throughout the process,

The need for improved policy and strategy interaction and definitive DOD policy statement by SECDEF, JCS, and the services,

Greatly reduced and less directive program guidance,

Need for a program document but greatly reduced level of detail,

Greatly reduced issue generation for the DRB in the summer program review cycle,

Paperwork reduction in the fall budget cycle (reduction of ZBB),

Need to study data base and proliferation of mission categories, and

Full service membership on the DRB.

REVISING PPBS

After review of the steering group recommendations by the Deputy Secretary, the Joint Chiefs, the Service Secretaries, the Under Secretaries, and Assistant Secretaries, the Secretary of Defense announced his decisions for revising the entire DOD PPBS process.

The decisions, however, went much further than simply changing the PPBS. They established a broad set of management principles and philosophy that set the base for major improvement in DOD over the next few years.

These broad management principles included the management formula: centralized policy and decentralized operational responsibility to the Service Secretaries and to the services. This, in turn, means that there has to be more precisely defined responsibility and accountability for results at the operating level.

The central OSD staffs will be asked henceforth to concentrate on a more appropriate central staff function by emphasizing broad central policy guidance rather than detailed program direction as in previous years. Central analytical staffs will be expected to emphasize cross-service and cross-command analysis to better help the Secretary make the high priority decisions.

All managers at all levels in DOD will be expected to look for economies and efficiencies and savings in carrying out their responsibilities.

OSD and the services were asked to join together in improving the PPBS process in a more participative mode. More teamwork and better communications are expected throughout the planning and budget year.

The Under Secretary for Policy was asked to work closely with JCS, the services, and other OSD staffs to provide within 30 days a proposal for a greatly improved strategic planning process.

The OSD program offices were asked to change the detailed directives of the past, to concentrate on broad policy guidance, to cut the paperwork required in the POM process by 50 percent, and to greatly reduce the number of issues raised to the DRB level for decision in the programming phase.

The DRB itself was restructured to include the Service Secretaries as full members. Further, the DRB will be used more frequently, including, for the first time, in the planning phase to review and approve the policy and strategy that will set the base for future program and budget decisions.

The budget phase was streamlined by reducing the mammoth paperwork requirements of the ZBB process. The concept of prioritizing programs at the margin will be kept but, with the concurrence of OMB acquired through an exchange of letters between the Secretary and the Director of OMB, the ZBB reporting requirements will be greatly reduced beginning this year with the fiscal year 1983–87 submission.

Another major decision with long-term implications is that the Deputy Secretary of Defense, with the advice of the DRB, will be responsible for total management of the new PPBS. The author, as Executive Assistant to the Deputy Secretary of Defense, was named as the Executive Secretary to the DRB to help the DEPSECDEF manage the year-long PPBS cycle, in all its aspects and to guide the implementation of the PPBS improvements.

Finally, the Deputy Secretary announced, in his March 27 implementing memorandum, that the new process was to start immediately, in the fiscal year 1983–87 FYDP. The transition to the new PPBS will take a full year particularly for the new Strategic Planning process to take hold, but as many actions as possible were to begin immediately with this year's cycle.

WHERE WE ARE NOW

The revised PPBS process has begun. The Consolidated Guidance of the past has been replaced by the Secretary's Defense Guidance (DG). The fiscal year 1983–87 DG has been drafted and reviewed by the services, OSD staffs, OMB, State Department, and the National Security Council. During the week of May 3–7, 1981, the new, restructured Defense Resources Board met three times to discuss policy, strategy, resource, and fiscal guidance for fiscal year 1983–87.

The summer schedule for the program review has been issued, and the fiscal year 1983 POM guidance has moved in a major way toward the goals of reducing the fiscal year 1983–87 POM documentation requirements by 50 percent and becoming more of a policy guidance document. A DRB Interservice-OSD Working Group, led by the author, will scan all program issues during the summer review and select these major issues that merit full DRB attention.

ZBB is being taken down. The Comptroller is working closely with OMB on ZBB and is also leading group to reduce the data demands and further rationalize the category and mission areas used throughout the PPB process.

In summary, in a very short period of time, the streamlining and improvement of the PPBS process is well underway toward meeting the goal of significantly improving the management of defense resources.

PPBS As It Was—A Summary of Problems

SYMTOMS

Planning and Policy

1. Planning doesn't influence system, is irrelevant.
2. Lack of policy context, no bridge from DPG to resource programming.
3. Not enough dialogue.
4. Gap between capabilities and policy.
5. Inadequate current assessment and CINC input.

Underlying problem: Planning has not been a priority concern of SECDEF.

Programming and Budgeting

6. Too much program guidance.
7. Inadequate participatory management.
8. Focus on first year of FYDP, little in last four years.
9. Conflict of program guidance vs fiscal guidance.
10. Inadequate risk assessment.
11. Program instability.
12. Too many issues.
13. Too much paper.
14. Tail-end perturbations.
15. "Gold watch" behavior; gaming.
16. Duplication of content; unique formats.

Underlying problems: Confusion of line/staff relationship OSD versus services . . . ZBB failure. Focus on "margin." Paperwork not in proportion to value, decisionmakers more creative than system allows.

System-wide

17. Revisitation of decisions.
18. Neglect of execution.
19. PPBS—Acquisition DSARC conflict.
20. DRB role and membership issue.
21. DOD-OMB joint review issue.

Underlying problems: No overall management of total PPBS process below SECDEF level . . . No uniform communication device throughout the total PPBS process . . . Too any data bases and categories due to competing confusing demands and needs from OMB, Congress, OSD offices and services.

Chairman TOWER. Thank you very much.

Dr. Chu?

STATEMENT OF DR. DAVID S. CHU, DIRECTOR, PROGRAM ANALYSIS AND EVALUATION, OFFICE OF THE SECRETARY OF DEFENSE

Dr. CHU. Thank you, Mr. Chairman.

It is a pleasure to be with you this morning.

Chairman TOWER. This is your first appearance before the committee; I know you are delighted.

Dr. CHU. Indeed, sir.

I have a written statement for the record. I would like to pick up briefly on some of the points Jack has already made.

As your citation of the joint GAO–DOD report and Jack's comments indicate, although any system can be improved, I think we have to give great credit to the strength and competence of the resources planning allocation system we already have.

Particularly when you look across the Federal Government at all the agencies, DOD is one of the few that attempts seriously to do multi-year planning and to follow the plan. PPV's is an evolving system.

I would cite in particular four significant types of changes this administration has made to the system.

First, as Jack has already indicated, the Secretary is interested in having centralized policy decisionmaking, but in decentralizing its execution.

One of his specific steps in that regard has been to build up the roles of the service Secretaries. That is in marked contrast to ideas that others have had in the past.

Having given the service Secretaries greater authority, he has tried to insist on their assuming a greater degree of responsibility for the execution of those policies. One vehicle has been what he has called "Secretarial performance reviews."

These are a series of meetings, some of them periodical, in which the service Secretaries discuss with him the progress they are making on high priority systems and the degree to which they are meeting the performance, cost, and schedule goals that have been set.

At the same time, as Jack has already indicated, the Secretary has adopted a more participatory style for the Department's decisionmaking process. A central element of that decision was to invite the

service Secretaries to join the Defense Resources Board and to invite the Chiefs of Staff of the military services to attend in support of their service Secretaries.

One of the results, I believe, has been to make the Board a forum for the debate of the major resource allocation decisions within the Department, with all the significant contending parties having an opportunity to meet face to face with the Secretary and Deputy Secretary of Defense to offer their opinions and viewpoints.

Likewise, as Jack has mentioned, the Secretary decided starting in July 1981, to invite the Commanders in Chief of the major commands, the so-called unified and specified commands, to appear in concert before the Defense Resources Board to offer their comments both on the guidance given to the military departments for formulating the 5-year defense plan and on the plans that the services actually submit.

Obviously, these gentlemen have a somewhat different view of priorities, as they should, given their immediate responsibilities. They have had, I would suggest, a significant effect on the character and shape of the defense programs put forward by this administration.

The third major adjustment, as Jack has already indicated, has been an effort to strengthen what often has been called the silent "P" in the PPBS system: The planning phase. Its formal aspects are overseen by the Under Secretary for Policy.

But there is also a less formal element. As in any major operation, you can't solve all the problems at once. One of the things that most Deputy Secretaries have recognized, during their review of service proposals each summer, are the problems on which we do not have agreement on the facts, to say nothing of the alternatives that might meet the challenges we face.

So, they have taken to appointing ad hoc subgroups of the Defense Resources Board to study the specific problems in depth and to come back to the Defense Resources Board at a later date with a report that attempts to resolve these problems in a constructive way.

The fourth element of change has been the Secretary and Deputy Secretary's emphasis on improving our cost-estimating procedures. Two major innovations deserve mention.

First, starting with the fiscal year 1983 budget, the Department has been able to price the Defense budget in a manner that better reflects actual inflation experience—particularly the experience of the late seventies, when there was some divergence between OMB forecasts and actual results. In fact, in terms of one calculation, perhaps three-quarters of the cost growth in the last decade, when we experienced particularly high inflation, can be attributed to underestimates of inflation.

Second, we are trying to do a better job in formulating cost estimates, absent the inflation rate. That follows from a decision by former Deputy Secretary Carlucci that, in preparing our programs and budgets, we would use independent cost estimates. The Department has long prepared such estimates as part of its internal debates on major weapons programs. But it seldom used them. We are trying to change that.

By "independent" I mean prepared by someone other than the offices directly responsible for managing the programs. Program managers naturally need to be optimistic individuals. Unfortunately that optimism has sometimes been translated into cost estimates that are not as accurate as we would like them to be.

The independent cost estimate process is intended as a check or balance to that problem. We have undertaken 10 such reviews in support of the budget that you have just finished considering. We are doing about 2 dozen for the fiscal year 1985 budget and will continue at that level in future years. The Authorization Act, in fact, mandates certain of these steps.

Of course, any resource decisionmaking process can be improved. If I could pick out a single element, in my judgment, that would do the most to improve our process, it would be stability.

One of the difficulties, as you know well, is that though the Department plans on a 5-year basis in some detail and has an extended planning annex that runs 10 years beyond that, the budget acts on that plan 1 year at a time.

That invites a more short-range outlook than perhaps would be best. It also permits—indeed encourages—revisiting decisions already taken.

In this regard, the Secretary testified before you last July in favor of a 2-year budget, and a number of the members of the committee spoke in support of that kind of proposal. I would urge its early consideration.

Obviously, you would have to study the details of how such a process would work before a final decision to implement it could be made. But a 2-year budget could represent a very significant step in improving the basic framework within which this kind of planning can be done, to the betterment of the program that is actually funded by the Congress.

That concludes my remarks. I will be pleased to answer any questions.

[The prepared statement of Dr. Chu follows:]

PREPARED STATEMENT BY DAVID S. C. CHU, DIRECTOR, PROGRAM ANALYSIS AND EVALUATION, DEPARTMENT OF DEFENSE

Mr. Chairman and Members of the Committee: It is a pleasure to appear before you this morning to help answer your questions on the Department of Defense's resource planning and allocation system—the Planning, Programming, and Budgeting System (PPBS).

For those who may have doubts, let me stress that the Department has a solid resource planning and allocation system. In the planning phase of PPBS, midterm and long-term objectives are set, and guidance is provided to the Military Departments and Defense Agencies for development of the next Five-Year Defense Plan. In the programming phase, decisions are made on what is needed to meet those objectives. Those decisions include the size and composition of our military forces, their peacetime operating tempo (to support training and deployments), the size of war reserve stocks, and the investment in new equipment needed to sustain future forces. In the budgeting phase, the first year of the Five-Year Defense Plan is translated into a detailed budget for submission to the Congress.

Mr. Puritano has described this process in some detail in his statement. I will not attempt to replicate the review he has already given you. Permit me instead to reemphasize the major changes that have been made to the system by this Administration.

MAJOR INNOVATIONS IN PLANNING, PROGRAMMING, AND BUDGETING DURING THE REAGAN ADMINISTRATION

There have been four major themes to the changes made in the DOD Planning, Programming, and Budgeting System by the present Administration.

First, an effort has been made to decentralize the execution of policy, while centralizing responsibility for it. Second, a more participative management style has been developed. Third, increased emphasis has been placed on the planning aspect of the process—often labeled in the past the silent "P" in PPBS. And fourth, special attention has been paid to costs. I would like to discuss each of these briefly in turn.

CENTRALIZED POLICY FORMULATION, DECENTRALIZED POLICY EXECUTION

One of the earliest decisions of the Secretary of Defense was to strengthen the role of the Service Secretaries. It is clear that the Secretary of Defense views the Service Secretaries as his "line managers" of the Military Departments. This is in marked contrast to what was contemplated seriously by some in the prior Administration—that is, abolishing the Service Secretary positions, and having the Secretary of Defense deal directly with the Chiefs of Staff of the Military Services. Instead, Secretary Weinberger has sought to build up the Service Secretaries' role, thus reinforcing civilian direction of the Department of Defense.

With increased authority for the implementation of programs, however, also comes increased accountability. One of the vehicles used by the Secretary of Defense to ensure accountability has been the Secretarial Performance Review. In these, each Service Secretary must provide the Secretary of Defense with briefings on major programs for which he is responsible. For some programs, especially those that are part of the President's strategic modernization program, performance reviews are held every several weeks.

These are not intended as "decision meetings." Rather, they give the Service Secretaries the opportunity to explain major programs and their progress to the Secretary of Defense, and provide a vehicle for dialogue with him on how impending problems should be managed. The Secretary of Defense's questions in these meetings tend to focus on three major issues:

Is the system meeting its performance goals?
Is the system on schedule?
Is the system within its cost profile?

PARTICIPATIVE MANAGEMENT

While major policy decisions are made centrally, they are taken on a participative basis, with all parties having an opportunity to offer the Secretary and Deputy Secretary of Defense their views.

For most resource allocation decisions, the forum for these discussions is the Defense Resources Board (DRB). Initiated in 1979, the board was expanded by the present Administration to include the Service Secretaries as members. This not only gives the Service Secretaries an opportunity to present their views personally to the Secretary and Deputy Secretary of Defense, but encourages the Service Secretaries to take a perspective on the defense program that is broader than the interests of their individual Military Departments. As a result, the Defense Resources Board has become the vehicle for discussing the Department's major resource allocation issues.

This Administration's expansion of the DRB extends beyond inviting the participation of the Service Secretaries. The Chiefs of Staff of the Military Services also attend, in support of their Service Secretaries, to provide their military expertise.

Moreover, twice a year the major field commanders—the Commanders of the Unified and Specified Commands—are invited to appear before the Defense Resources Board. In November, they are asked to provide their comments on the draft Defense Guidance given to the Military Departments to guide the formulation of the next Five-Year Defense Plan. In July, they are asked to comment on the plans prepared by the Military Departments in response to that guidance. Although this was a simple change, it is potentially one of the most far-reaching—for it brings a whole new set of participants, with a different set of views and a different appreciation of priorities, into the resource allocation

debate. The comments of these major field commanders have had a distinct effect on the character of the defense program shaped by this Administration.

While the management style is more participative, both the Secretary and Deputy Secretary of Defense have stressed that the participation must be by the principals—not by their staffs. In prior years, there was a distressing tendency to delegate to a staff element the authority of a principal to speak for an office or a Military Department. By insisting that the principals participate, the Secretary and Deputy Secretary of Defense seek to insure that the views expressed are truly those of the principals, and that they have been given careful thought before they are put forward in the Defense Resources Board. In my judgment, this has led to a more informed and responsible process, one that tends to focus on the major issues without bogging down in unnecessary detail.

INCREASED EMPHASIS ON PLANNING

The formal planning process, which has been ably described in Mr. Puritano's statement, is led by the Under Secretary of Defense for Policy, and involves the entire Defense Resources Board.

Two aspects of the planning process deserve special comment. First, we recently decided not to rewrite the Defense Guidance "from scratch" every year. U.S. national security objectives do not change radically from year to year, and a major annual rewrite tended only to reopen issues that had already been settled, while neglecting those questions that truly merited attention.

The second aspect of the planning process that deserves comment is related to the first. The formal process is now supplemented by what might be called a "target of opportunity" planning effort. Frequently during the summer program review, the Secretary and Deputy Secretary of Defense identify one or more problems that it is clear we cannot resolve with the information at hand. It has become the accepted practice to appoint an ad hoc subgroup of the Defense Resources Board to deal with these issues, with a report rendered to the DRB for its consideration either during the budget review or in the review of the next year's Five-Year Defense Plan. This has led to serious, in-depth review of a number of our major problems and—much more important—to the resolution of those problems.

IMPROVING THE DEPARTMENT'S COST ESTIMATES

A major element in the Department's acquisition improvement program (the so-called "32 Carlucci initiatives") has been budgeting to most likely cost. Mr. Thayer, now the Deputy Secretary of Defense, has likewise made it one of his priority concerns. The recent, relatively modest cost increases reported in the Selected Acquisition Reports (SARs) indicate that the Department is beginning to make progress in this area.

Two major initiatives have contributed to this progress. First, starting with the fiscal year 1983 budget, the Department was permitted to use a separate inflation forecast for major procurement commodities. During the 1970s, poor inflation forecasts accounted for 75 percent of the cost growth of SAR systems. The late 1970s, in particular, were characterized by inflation for defense goods rising at a rate higher than that for the economy as a whole. With the introduction of major commodity pricing, we hope to improve the accuracy of our inflation forecasts, and avoid the damaging cost growth of recent years.

The Department is also trying to improve its underlying cost estimates, absent the effect of inflation. One of its most important tools is the independent cost estimate. Independent estimates are prepared by offices outside those directly responsible for the management of weapons programs. This allows a more objective view of likely costs. While such estimates had been prepared for many years—and, on average, had proven far more accurate than estimates provided by program managers—they had seldom been used in drafting the budget forwarded to the Congress. Beginning with the fiscal year 1984 budget, the Service Secretaries were directed by the Deputy Secretary of Defense to consider independent estimates in preparing their programs and budgets.

Moreover, for a selected number of systems of particular interest, the Cost Analysis Improvement Group (CAIG) reviews the Services' independent estimates and prepares its own conclusions. Ten such reviews were conducted in conjunction with the preparation of the fiscal year 1984 budget, and 24 are being

conducted in conjunction with the preparation of the fiscal year 1985 budget. We anticipate that a similar number of such reviews will be conducted each year.

Critical to the success of these efforts is program stability. The best cost estimates are quickly destroyed by frequent changes in the pace or scope of weapons programs. Similarly, when the Department requests management reserves to protect against the riskier aspects of a weapons program, the failure of the Congress to provide those reserves increases the likelihood of cost growth.

In this regard, the results thus far of this year's appropriation process are not encouraging. Particularly disappointing is the small number of programs for which multiyear funding has been approved. Multiyear procurement promotes program stability; it is no accident that some of our best recent cost-forecasting experience has been in multiyear programs.

Likewise, it is very disappointing that perhaps 300 programs will receive "salami slice" cuts—that is, the programs will be stretched, or the Department directed to achieve the same results for less money. For obvious reasons, this can be extremely injurious to good cost forecasting.

FURTHER IMPROVEMENTS TO THE DEFENSE PLANNING, PROGRAMMING, AND BUDGETING SYSTEM

No one doubts that further improvements to the Defense Planning, Programming, and Budgeting System are possible. But lest we become discouraged, I think it is useful to compare the experience of the Defense Department with that of other agencies of the Federal Government. Few have such a multiyear planning process, and some who have experimented with such an approach have abandoned it after only a short period.

In my judgment, stability is the key to further progress in improving the defense resource process. One of the biggest sources of instability today is the short-range nature of the budgets received from the Congress. Although the Department prepares a five-year plan, with a ten-year extended planning annex running beyond that, the plan is funded only one year at a time.

The Secretary of Defense testified before you in favor of a two-year budget. Several members of the committee expressed support for that initiative. In my judgment, a two-year budget—or some form of multiyear budgeting—is the most important single step we could take to improve the defense resource planning and allocation process. I urge the committee to act on the support expressed for the Secretary's proposal and to consider a two-year authorization, perhaps beginning with the fiscal year 1985 budget, as a step in that direction.

Thank you.

COMPLEXITY OF PPBS CYCLE

Chairman TOWER. Thank you.

The PPBS cycle is viewed as being rather long and complex.

Is it possible to reduce the number of players involved, reduce the length of the cycle or otherwise streamline the process and still improve the product?

I will ask both of you to comment on that.

Mr. QUETSCH. Mr. Chairman, I don't think we really want to reduce the number of players. We want to bring all the intelligence we can to bear on it.

At the point where decisions are made the Secretary has decided, and I think it is right, personally, to reduce the number of individuals who sit at the table and present their various views and arguments.

I don't think you can really shorten the overall process very much. I think it is important and has always been important that in a process that takes as long as this does, that we have an iterative process that permits people to enter information from outside of the system, if you will, to update people's understandings of the problems and the conditions in which they are going to be operating.

For instance, the markup of the budget submission by this committee is an important input into the PPBS, and it may cause us to reexamine decisions that we have tentatively arrived at.

The same is true of the Appropriations Committee's final action, the budget resolutions, and so forth.

In addition, there are, of course, developments in the Soviet threat, in the world situation, and in the economy. There should be an opportunity for those changes to influence the system. They inevitably will force changes in what we have previously done.

Some people criticize that as instability or unnecessary revisiting. I disagree, that is updating, and I don't think it is really bad.

The most common proposal, I suppose, for improving the PPBS is to combine the program and the budget phase and I really should not speak for the Department, that is one of the things that has been raised by the GAO and OSD——

Chairman TOWER. We won't hold the Department to your personal opinions.

Mr. QUETSCH. There is a reason why these phases are separate. We can't simply look at them as separate and assume they are duplicative. In the programing phase, we are testing the candidate programs submitted by the military departments against the guidance that has been developed and against the objectives of the Department.

In the budget phase, we are testing against a wholly different set of criteria. The programs that survive that first test we then test in terms of do-ability, time phasing, pricing, and all the things that matter in putting together a good defensible and doable budget.

Even if we were to combine these two phases, we could not shorten either one of them. All you would do is get a budget submission earlier in order to give us time to do both a program and a budget review. You could not put together a good business-type budget until after you put together the program, so there would be two phases anyhow in which you would have later and less useful input from the military departments.

We do periodically go back and see if there is some change that would justify eliminating some of those PPBS steps. So far, Mr. Chairman, we have not concluded that there really is any such justification.

In the planning process, for example, we build iterative steps, drafts and redrafts, so that everybody gets a chance for input in meeting after meeting, and the same is true in each subsequent phase. People do get a chance to not only make their own comments, but then to comment on other people's remarks. I think that is good.

It looks kind of sloppy, frankly, to some people It looks like there are too many steps, but I think that is one of the strengths of the process.

Dr. CHU. Let me underscore what Jack said. The system allows us to go from a broad set of goals in the planning phase, to agreement on the major ways of achieving those goals in the programing phase, to the details of how a program is going to be executed in the budgeting phase.

I am not sure that trying to consolidate those phases will, in the end, save much time. In fact, it might contribute to worse decisionmaking

because you need to articulate your broad objectives before you can set down the details of a program.

We have made efforts to streamline the process, particularly in terms of paperwork. This was one of the initiatives Mr. Puritano presided over shortly after he came to the Department. We had found some of the documentation submitted by the military departments in the programing phase to be excessive. In fact, it turned out a good deal of the information had not been asked for! We did a line-by-line review of where the requirements originated, because many of the departments were complaining about the burden the reporting requirements imposed. We found that we could reduce approximately half of the paperwork without serious harm by eliminating those reports that had been self-generated in the past. We have tried to get rid of that sort of burden.

Also, we are trying to avoid unnecessary revisiting of decisions. Some revisiting is necessary because new information becomes available. Test results might be different from what we anticipated. A whole host of things can lead to changes in the plan. But we should not be revisiting decisions without new information.

One of the areas we are focusing on is the initial guidance. We are trying not to redebate broad security objectives—many of those are enduring and have a long history of support—but rather to focus on those specific items that need to be changed.

Again, I think a multiyear budget concept would have benefit in that, although this process is lengthy and evolutionary, it would assure we do it once every 2 years rather than once every year.

TWO-YEAR BUDGET CYCLE

Chairman TOWER. Do you think it is desirable to adopt a 2-year budget cycle?

Dr. CHU. I think it would be helpful.

Chairman TOWER. I think it would, too.

Are there any other changes that you think Congress ought to make? Any changes you would like to see made that would require statutory authority?

Dr. CHU. There is another that does not involve statutory authority directly. It is an area in which the committee has given the Department rather good support. That is multi-year procurement. It reflects our effort to try to put mature, stable programs on a multiyear basis, to get agreement with the Congress on what the minimum production rate is going to be. This allows us to achieve the savings that come from more economic ordering of parts and the knowledge that production will be set up at a feasible constant rate.

That is an area in which we would reiterate our plea for your support. You did not approve all of our candidates, but you approved approximately half this year. Yet I notice that a number of these multiyear programs do not appear to be emerging successfully from the appropriations process. That is unfortunate.

Chairman TOWER. Actually because of the budget constraint, to keep everything going, we had to spread out the money.

GAO/DOD STUDY OF PPBS

GAO and DOD have just completed what I believe is an unprecedented study in which the joint working group reviewed PPBS.

How is DOD responding to findings and recommendations of this joint working group?

Mr. QUETSCH. The staffs are still studying that, Mr. Chairman. The report was sent by the team leader, Ken Hunter in GAO, to both the Deputy Secretary, Mr. Thayer, and to Mr. Bowsher, the Comptroller General.

Both DOD and GAO staffs are now studying that report. It was done by a working group, and it was done rather informally. It was a compendium of ideas on the PPBS process, sorting out and discarding some and trying to get at those ideas which most likely produce profitable changes.

So, we are still reviewing that study. As I say, there aren't so many new ideas. I am not sure there are any new ideas.

What we have to look at is do the conditions now exist that would make a previously examined idea now become a good idea. That kind of evaluation will take some time.

Chairman TOWER. Do you have anything to add to that?

Dr. CHU. No, sir. We are studying the document, which we just recently received.

Chairman TOWER. Senator Wilson?

Senator WILSON. Thank you, Mr. Chairman.

First, I would like to thank the Chair for the attention that is being given to this subject.

Chairman TOWER. Senator Wilson, will you take the Chair?

I want to turn the Chair over to Senator Wilson because I have to go help the marines celebrate their birthday.

Dr. CHU. Yes, sir, they will be pleased.

Chairman TOWER. Knowing the marines, the party may last long into the night.

INDEPENDENT COSTING CAPABILITY

Senator WILSON [presiding]. For the record, I think the Chair should be commended for the attention given to the whole subject of PPBS.

Some of the questions I had intended to ask, Dr. Chu has anticipated in the testimony, especially with respect to planning. But let me go a step further and ask about the mention that you made of an independent enhanced costing capability at OSD.

I can fully appreciate the desirability of this. On the other hand, I wonder if it does not raise in the minds of some the specter that it could be abused to bring about a kind of micromanagement that would, in fact, reduce the very management budget capability that we are seeking. You don't know if that specter has been raised before.

I guess my question is: How do you prevent the abuse of this independent costing capability in the Office of the Secretary and still avoid micromanagement?

Dr. CHU. I think that is a function both of the structure of the process and of its relationship to the various players.

In terms of structure, what we ask is, first, that each service give independent estimates for major systems to the Secretary.

Then estimates are sent to the Cost Analysis Improvement Group for review. The services present their estimates to that group before the group undertakes its own review.

The military departments thus have an opportunity to put their views on the record at the start.

Then when the Cost Analysis Improvement Group completes its work, the results are made available to all the principals within the Office of the Secretary of Defense as well as to the military departments.

So, the results can be debated. We do not retreat into a closet and try to whisper in the Secretary's ear: Do the following thing. It is an organized process in which the services have full opportunity to comment.

Any changes made as a result of that process are typically made either during the summer program review—in the open, as part of the Defense Resources Board process I described—or, if the program is not ready yet, during the fall budget review that Jack mentioned.

I think the relative openness of the process is an important safeguard against micromanagement by the Office of the Secretary of Defense.

One of the problems, I believe, in the past was that the military departments may not have said exactly what their programs were going to consist of. That is why they sometimes have had trouble getting their cost estimates approved.

One of the benefits of requiring independent cost estimates is that someone outside the military department is saying: What is your program and what is its cost? This compels people to sit down and say: OK, here is what we plan to do and here is what is required to get the job done.

I have found frequently that major portions of the disagreements can be settled in that process of having everybody agree on exactly what the plan is.

Senator WILSON. Given the necessary length of the cycle and the fact that you can have all kinds of factors affecting price fluctuations, the obvious examples being the OPEC oil situation in 1973 with respect to fuel requirements, I would gather you think this openness that you have described and the fact that there is constant, continuing periodic review, means that you don't suffer from anything in the way of a cost paralysis. Is there an opportunity for almost constant revision of cost estimates?

Dr. CHU. Yes. Jack can comment on that more than I can, but decisions on future forecasts of inflation are generally made at the last possible minute so that we can incorporate the latest views of all parties.

That is a technical challenge for the budget community to execute, but it does allow us to base the forecast on the latest information.

Mr. QUETSCH. That's right. Specifically, we do not yet have the inflation assumptions that we will use to shape the fiscal year 1985 budget to be submitted in January.

As you know, your own process requires OMB to look at those economic assumptions again in the spring and usually in July. DOD updates the estimates based on those assumptions before the committees mark up their bills.

So, there is plenty of opportunity to keep that current. I hope that inflation estimates will not be as important in the next few years as they have been in the past.

Senator WILSON. Hopefully, it will flatten out so that it won't have to be required.

Mr. QUETSCH. Unpredicted inflation is very destructive of cost discipline, because it is hard in execution to distinguish inflation from other causes of cost growth and, therefore, very hard for a program manager to really exercise discipline over his program.

CHANGES IN THE PROCESS

Senator WILSON. To what extent do you see changes requiring any kind of congressional action or any change in the process of OMB? Are you hampered?

Mr. QUETSCH. We think that if the Congress solves the problems that it seems to have of its own, that that will make our job a lot easier. Most of the proposals for improvements in the congressional budget process do not come from us; we are somewhat victimized.

We have problems with continuing resolution authority, and we have problems with the absence of timely Appropriation Acts.

We don't like late reports, but Congress doesn't like them either. If Congress can bring itself to go to a multiyear approach, starting at least with biennial budgets that will help. There will be problems for us though; it will be harder to estimate for 2 years than for 1 if that is the form that the biennial budget takes.

In addition, in a 2-year budget, there will be a temptation for Congress to delay the CRA even more.

In other words, if they can take up to one-third of the year now, they take 3 or 4 months' delay now, they may decide that they can take 6 or 8 months later on. We hope not.

One thing I would not like to see the Congress do is to take another 3 months out of the fiscal year unto itself. That would again just encourage delay and make it very tough on DOD to develop the following year's budget and to begin to execute the current fiscal year.

One of the most difficult problems we have had with the present Budget Reform Act was the change in the fiscal year, which now begins October 1. In the PPBS we are still dependent, and we will continue to be, in many cases on an annual assessment of what has happened.

In order to submit the Federal budget to Congress in January, the military departments have to submit their budgets to OSD on September 15, before they have completed their assessment of what the Congress has done with the previous year's request. I would not like to see that problem aggravated by another change in the fiscal year.

Dr. CHU. I think the relationship with OMB has been a very constructive one in general for this administration. I don't think that is a serious source of problems for us.

Senator WILSON. I gather from your response to Chairman Tower's question earlier that you think the 2-year cycle would be desirable in

many respects, but that one of the basic reasons is that you think it will actually save money?

Dr. CHU. In the long run, yes, sir.

The savings cannot be estimated with precision. But I believe it would help give greater stability to the defense program. We would decide what we want to do and not constantly change our minds about the rate of production, tempo of operation. Those kinds of last minute changes tend to be expensive and consume resources that don't need to be expended.

Such a change would not only give us a longer range view of what our problems are and how to solve them. But, when we arrive at a solution, help us stick to it, implement it, and execute it efficiently. We would not have to spend all our time and energy worrying about the next budget year.

I think over time it would make the Department much more efficient.

Senator WILSON. What do you believe the responses from contractors would be in terms of the budget process in moving to a 2-year cycle?

Dr. CHU. Speaking for myself, I have been encouraged by the kind of responses we have gotten from contractors on the current multiyear procurement initiative in terms of savings that have been identified. The rate of return on the investment in some cases has been quite considerable.

So, I am not sure that that presents a serious obstacle.

If anything, I would expect the business community to welcome more stable planning. Knowing in advance exactly what the Department is going to do and what they are bidding for on a contract would encourage better planning for their work force, better planning for their capital management.

Senator WILSON. That would be my expectation as well. I think, too, you might find that over a 2-year cycle you are likely to enjoy the kind of savings that I think occur in an entirely different setting.

I think the congressional reaction to that might be—maybe it is wishful thinking—analogous to what happens when you look at the nonmilitary side of spending in those settings at the State government level in a 2-year cycle, a number of people are pleased that the expenditures wind up being much less than they would be on an annual basis.

I think that is true. I don't think that the difference in terms of what we are doing necessarily affects that.

What are the chief complaints those who are engaged in the process have had with it in terms of congressional second guessing, and the fact that you go through this elaborate procedure only to find that, out of the blue, someone can bring a floor amendment that totally derails it?

Mr. QUETSCH. You mean aside from that criticism, Senator?

Senator WILSON. I am really inviting you to criticize, throwing it as slowly as I can, waist high.

Mr. QUETSCH. I think that in the congressional budget process the order of things is reversed as it stands now. That is, the first concurrent budget resolution is set without the benefit of as much input from the substantive committees as we would like to see.

It is, therefore, viewed as very arbitrary. That makes the subsequent actions of the authorizing and appropriation committees look arbitrary to the military departments.

In the first budget resolution, the budget committees are looking for ways to the cut the defense budget to get to a target that was set, not

on the basis of defense requirements, but on the basis of fiscal constraints.

I think the whole dialog with the Congress would be healthier if we felt that that resolution gave proper weight to the requirements of defense as well as to the requirements of budget balance or fiscal constraint. The authorization committees actually discuss those programs, not simply what we can afford.

Thus, the budget process tends to put us at a disadvantage and creates unnecessary tension. If the budget resolution process got out a year ahead of the authorization and appropriation process, as it would in a biennial budget process, or if the authorization act got out a year ahead of the appropriations act, I think it would eliminate much of that imbalance.

We know that Congress has to do its job. We are perfectly willing to support it. Obviously, it would be easier mechanically if we had fewer committees to deal with. We now have the Appropriations and Armed Services Committees and subcommittees thereof, and, in addition, we have the Budget Committees, and Intelligence Committees, and so forth.

It gets kind of repetitious. The same questions come to us over and over again, often in different forms so we can't quite use the answers we gave to the other committee.

We realize that questions of the budget process and of overlapping committee jurisdictions are very difficult things for the Congress to deal with. Again, if any solutions are made to congressional problems, I think we would get a tremendous benefit on our side in terms of our ability to spend more time on execution.

There is a limited amount of time, and we have a large number of people working on responding to the demands of the congressional process. We do respond to the Congress, not always to your satisfaction, but we knock ourselves out to do it, and sometimes we do have to neglect things that should not be neglected in order to respond.

Dr. CHU. If I may pick up on a point Jack mentioned, one of the difficulties we face is the overlapping of jurisdictions among various committees.

We deal with six major committees. Not only Armed Services and Appropriations, but also Budget and Intelligence. Now Government Operations is a major committee on some issues as well as the Foreign Affairs Committees.

One of the difficulties that occurs is that each committee has a different perspective on what we should be doing. We are spoken to by a number of different voices, and a great deal of effort must go into trying to respond in a constructive way.

That overlap is a very serious obstacle.

BIENNIAL BUDGETING

Senator WILSON. At the very least, would you say savings might occur in your time and money expended for the purpose of those responses by going to the biennial cycle?

Mr. QUETSCH. Yes, sir.

One of the other advantages which I don't think David or I mentioned because we don't like to admit it is that much of the problem

today is the year-end problem. You have one less year—and if you go to a 2-year operating budget, for instance, or a longer term for procurement appropriations.

The incentive to get money obligated and, therefore, a tendency not always to use it as wisely as you might is reduced in half if you close the fiscal period off less often.

There is another side to the 2-year period. There is more risk, more tendency for people to hedge against uncertainty, because it's harder to forecast 2 years than 1. So, when we support biennial budgets, I think we can speak for all of us, it is in full knowledge that it will pose real serious challenges for us.

We are not druids and do not have to operate on a lunar cycle. We can do it on 20 months or 30 as well as 12 or 24. In a 2-year cycle, though, we would have to extend our horizon, tighten up on our fiscal discipline, help one another out more because we would have to stretch that money and make it last 2 years.

In spite of all those things, with the advantages in terms of stability, in terms of a more rational and better dialog between us and the Congress, I don't see how we cannot be in favor of it. Without knowing precisely what form anybody is proposing, we are certainly in favor of the concept.

If we are fouling up in any way, the less often we do it to ourselves, the better.

Senator WILSON. Thank you.

Senator Nunn?

RULE OF THE JOINT STAFF

Senator NUNN. Thank you, Mr. Chairman.

I have just a couple of questions.

At what stage does the Joint Staff play their major role in this process?

Dr. CHU. At a variety of points. There are the formal documents you are familiar with, the so-called joint strategic planning documents and joint program assessment memoranda.

Perhaps even more important than that, Secretary Weinberger and both Deputy Secretaries of Defense in this administration have increasingly turned to the Chairman of the Joint Chiefs as the Nation's senior military officer as well as to the commanders of the unified and specified commands to offer their advice from a military perspective.

Senator NUNN. Are they asking him to participate in his own individual view or corporate view?

Dr. CHU. He is being asked increasingly to offer his views, not in the sense he ignores anyone else's, but he is being asked to offer his views.

He is being asked as Chairman frequently to head with another office in the Defense Department some of the very specific reviews of problems that the Deputy Secretary identifies.

Senator NUNN. General Kelley testified earlier this week and made an emphatic point from his perspective that the Chairman should always be speaking for the Chiefs.

Are you saying that is not happening now?

Dr. CHU. No. He represents their views, but as the Defense Resources Board is constructed, the service Chiefs are always there as well, so they have ample opportunity to present their individual perspectives.

What General Vessey is being asked to do frequently is to summarize and synthesize that advice and offer his own viewpoint as Chairman, which may not be the same as the viewpoint of each individual member.

Senator NUNN. You are asking him for his individual views?

Dr. CHU. Yes, sir.

Mr. QUETSCH. I think this is a very important change, without any explicit change in doctrine, to bring the service Chiefs into the DRB.

The Chairman used to feel obliged to carry the water of all the services and had a hard time doing it because they couldn't always agree. Now he can let each of them speak his own piece.

Obviously, he is influenced by what they say, but he is speaking for himself as well, so the totality of military advice to the Secretary of Defense is stronger and more effective.

Senator NUNN. The Chairman of the Joint Chiefs is not a member of the DRB?

Dr. CHU. Yes, the Chairman is a member of the DRB, and, as a practical matter, the service Chiefs have always been invited to attend and support their Secretaries.

Mr. QUETSCH. The Chairman had been a member of the Board for some years before the recent change. The change has been to bring the other Chiefs in with their service Secretaries so they can present their own views.

Senator NUNN. Are you now asking for the Chairman's individual views on the Defense Resources Board?

Dr. CHU. On many issues, yes, sir, that is the case.

Senator NUNN. If he serves on the National Security Council, do you think he should also be asked for his individual views as opposed to corporate views?

Dr. CHU. I think it would go beyond our charter to testify of resource allocation to comment on that issue.

Senator NUNN. Has that been recent?

Dr. CHU. That has been an evolutionary phenomenon as both Deputy Secretaries have presided over DRB meetings.

Mr. QUETSCH. My own feeling over the years as I have watched these DRB's operate is that the Chairman is now free to express himself because he does not feel constrained to try to synthesize the feelings of the other members of the Joint Chiefs in every remark he makes and, therefore, he is actually freer to comment.

I think General Vessey, not just by his personality, but I think he attends more of those DRB meetings than his predecessor did. If, in the past, they could not reconcile the service positions, they tended not to say anything.

Senator NUNN. Were they asked in the past to give their individual views or is that question being asked more now of the individual?

Dr. CHU. Again, the change in the format is critical. They are together at the same time, so the Deputy Secretary and Secretary may

ask them and frequently on individual issues poll each one, what do you think, what do you think, what do you think, et cetera.

So, there is the opportunity for him to express his views. The Chairman does not feel he has to say, "Well, you know, I have to represent X's perspective and Y's perspective and now I will express my own," which will be swamped by all the different views he must represent.

So, bringing them together at the same time, he is freer, while recognizing their views, also to offer his own.

The other thing I would stress is the value, which they have themselves recognized, of bringing into the DRB the Commanders in Chief of the unified and specified commands on an organized basis, twice a year. This gives them an opportunity, again face to face with the Chairman and the Chiefs of Staff of the military Departments there, to offer their views on the plans of the military Department and the guidance those Departments should get for the next cycle.

Those have been some of the most valuable sessions of the Defense Resources Board.

Senator NUNN. So, the service Chiefs are there now, but they are there to back up their service Secretary rather than as individuals. Is that correct?

Mr. QUETSCH. That is right.

Dr. CHU. They are frequent and able participants. I don't wish to suggest they just sit there and watch.

Senator NUNN. For instance, would General Kelley be sitting there with Admiral Watkins?

Dr. CHU. Yes, sir.

Senator NUNN. They are there during the whole deliberations or are they just called in?

Dr. CHU. They or their representatives. Sometimes they are out of town, so they send a deputy.

Senator NUNN. Do they vote?

Dr. CHU. We don't vote in the DRB in this administration.

Senator NUNN. Is it primarily to provide data for the Secretary of Defense?

Dr. CHU. The purpose is to give everybody an opportunity to give their views to the Secretary of Defense and Deputy Secretary of Defense.

Senator NUNN. What is the distinction between being a member and not being a member. If you are not a member sitting there giving your opinion and there are people sitting there giving their opinion, but nobody votes, what is the difference?

Mr. QUETSCH. If we give service Chiefs the vote, the Navy would have three to the Army's two.

Senator NUNN. Nobody votes anyway, do they?

Mr. QUETSCH. No. In the past positions have been recorded, but we don't vote. It is the Secretary who makes the decision or endorses the decision. It is not a democratic process.

Dr. CHU. To put it another way, the Secretary holds 51 percent of the votes.

Senator NUNN. Does the Joint Staff now participate in the fall budget reviews?

Mr. QUETSCH. We send them copies of the program budget decisions for coordination, and we send them reports of where we stand in the budget process, and so forth.

They are geared to address issues that usually have been addressed in the program review. So, it is usually only on an exception basis that we get a lot of input from them.

DEFENSE GUIDANCE

Senator NUNN. My understanding is, and you may shed light on this, that at the present time what you have is a budget guidance, or defense guidance. Would that be the guidance that you have in the Defense Resources Board called defense guidance? Is that it?

Dr. CHU. The Defense Guidance is the Secretary's annual document prepared with the advice and input of the Defense Resources Board's members.

Senator NUNN. What stage of the process are you in now?

Dr. CHU. We are now debating guidance that will affect the fiscal 1986 to 1990 defense program. The guidance the Secretary will issue approximately next January will affect the program plans the services submit next May.

FISCAL YEAR 1985 BUDGET

Senator NUNN. How about the 1985 budget?

Mr. QUETSCH. In the 1985 budget we are processing 200 to 250 individual issue papers addressing questions that have arisen from our examination of the service budget submissions.

Senator NUNN. What stage is that in? Has it gone through the Defense Resources Board?

Mr. QUETSCH. No; we are halfway through the processing of individual issues. We will receive appeals to those from the military departments and defense agencies.

We will then have meetings with the Secretary and the Defense Resources Board to resolve the major issues that arise toward the end of that review.

Senator NUNN. Where are you getting your dollar figures from? When you are doing this for the services, who is saying this is the overall figure, this is the Army, this is the Navy, or this is the Air Force figure?

Mr. QUETSCH. We are not working to a number. We are working from a number. That is, we started out from a number in last January's budget. the topline projection for 1985. We are scrubbing programs that have been submitted as candidates against that amount of money.

Senator NUNN. You started with last year's projected 1985 budget?

Mr. QUETSCH. Yes.

I don't expect the political decision will be made on the size of the defense budget until Congress is finished and we know where we stand in 1984, and then decisions will have to be made on affordability, and so forth.

We don't have those yet. So, all of this is culling out things that aren't making the cut. Also, through the summer program review and the fall budget review, identifying candidates that could be added or subtracted, depending on how much money we end up with.

Senator NUNN. Isn't it a major problem if you are in a planning process, for the service and you are told to plan for a number, say

$100 billion; and yet in reality, that number is going to end up being $80 billion?

If you were told to begin with that, $80 billion, you might really plan a totally different kind of approach to both manpower and procurement?

Mr. QUETSCH. Yes, that's possible. However, it is very hard to say where the break point is between adjusting a plan, stretching it out over time, or what have you, and getting to the point where it actually would force you to develop a wholly new strategy, a new national security policy.

Senator NUNN. Aren't we pretty obviously there now?

Congress has a 5-percent projection of growth—and I see no indication on Capitol Hill that that is going to go up, if anything, there will be more pressure on the downward side—and the administration substantially above that. My understanding is that based on the administration's preliminary mark, they are going up now for the 1985 budget and based on Congress last indication, we are going to have to scrub $22 billion out of the administration's budget when it gets over here and something like $28 billion next year.

So, in outlays we are talking about a $50 billion difference between the administration's position and the congressional position in outlays over just the next 2 fiscal years.

If that is the case, it seems to me we are going through almost an absurdity in the budget process. I hate to conclude that, but if I were a service chief or if I were planning resources and I was given a budget that was probably going to go down $8, $10, or $12 billion in each of the next 2 fiscal years, how would I plan rationally when I am not going to have anywhere near the resources I need to have?

Dr. CHU. That is one of the points of strength of the Defense Resources Board format. We all watch the external political climate and actions of Congress with considerable care.

The advantage of the summer program review, in which the tentative plans of the military departments are reviewed and decisions made on priorities, is to give the Deputy Secretary and Secretary an opportunity to discuss with the military departments "what if" kinds of questions.

We don't necessarily solve them at that time, but it gives us the opportunity to face those questions. It prepares us for making a major revision, if needed. That was obviously a concern this summer.

With the ability to summon this group of players, who have now dealt with these issues over a 3-year period, the process is better able to respond when revisions are needed.

As a practical matter, we have used the Defense Resources Board in the two major revisions taken, the one in the fall of 1981 and again in the spring of 1982. What you have is a cohesive body that is empowered to speak for their particular elements of the Department in offering views to the Secretary about where the priorities lie if the budget situation is different from what we initially planned.

Mr. QUETSCH. We should not make decisions any earlier than we need to, and if we make them, we should not announce them any earlier than necessary, because you might learn something if you wait. If it appears to those on the outside that we are postponing decisions, that is not really true.

If this is the beginning of a big cutback in defense, the Congress has taken a major reduction. I don't think the President will get anywhere near 5-percent growth with the reports of the Appropriations Committees standing as they are going into conference.

They have done it by whittling away at us, nickeling and diming us, if you will, to a large extent, without regard to the possibility that this big reduction is going to cause a major reassessment of defense.

REALLOCATION OF RESOURCES AND THE JCS

Senator NUNN. That is the tendency throughout the Congress and Department of Defense. Everybody is nickeling and diming. That leads to my next question.

How long have you been in the planning and budgeting process?

Mr. QUETSCH. In the Office of the Secretary of Defense, 21 years; 28 in the Department of Defense.

Senator NUNN. During that time, getting to the Joint Chiefs and their role, how many times have you seen major changes in resource allocation proposed, initiated by the Joint Chiefs or the Joint Staff from 1 year to the next or over the period of 2 or 3 years? Can you recall ever seeing a major reallocation of resources?

Mr. QUETSCH. Directly related to an assessment by the Joint Chiefs?

Senator NUNN. An assessment or a realization that in order to build up in one area, you are going to have to cut another.

I know you have seen changes showing here we have to add this much in airlift.

Have you ever seen the Joint Chiefs recommend one service go down in terms of resource allocation in order to fulfill a higher priority with another service?

Mr. QUETSCH. Yes. Those are very hard, without doing a lot of research, to explain to you.

Senator NUNN. I thought you would remember.

Mr. QUETSCH. Certainly after the Vietnam war the Army took a big hit in terms of reductions of divisions. That was crucial.

Senator NUNN. Did that come from the Joint Chiefs though?

Mr. QUETSCH. The need for it never came from the Joint Chiefs.

Senator NUNN. I am not saying whether we made major changes.

Mr. QUETSCH. I would have to say that I have never seen one. I can't trace a major shift from one service to another in a single cycle to a JCS document, if that is what you mean.

Now, we see major shifts and I have observed them. I have been there 21 years. I haven't seen every meeting, but typically——

Senator NUNN. You generally know where the major changes come from, though?

Mr. QUETSCH. Yes.

Senator NUNN. I am asking have you, in 21 years, ever seen a major change in resource allocations stem from the recommendation of the Joint Chiefs?

Mr. QUETSCH. Not from a single major recommendation of the Joint Chiefs, I can't say that. But remember, I am looking mostly at the near term.

So, I look at something like, Abrams and Schlesinger's agreement on how they will get the Army down after Vietnam. That is the more typical thing I would see.

How much that was influenced by the Joint Chiefs' threat assessments and their telling Schlesinger that it was the Army that had to come down, that I don't know. I have a feeling that you arrive at that kind of decision more by a general consensus over the long view and not by specific recommendations.

Going back to the past and even to the present, it would be very hard to get the Joint Chiefs of Staff to agree explicitly on a document which says over the next 10 years we have to cut service A by $100 million in order to give service B $100 million.

Senator NUNN. Do those kinds of decisions have to come from civilians in the Department of Defense?

Mr. QUETSCH. Yes; at the highest levels.

We try not to say that we are taking money from service A to give to service B. We say we are cutting service A and increasing service B. It is a much less controversial and painful process doing it that way. The record is not clear.

Dr. CHU. The debate is not so much typically between services A and B, but between mission A and mission B. The missions, in turn, usually have clear trails in connection with the individual service.

Even when you do get that kind of advice from the Joint Chiefs, you get it in terms of mission.

Senator NUNN. Let us assume the kind of decision that would say that—this is purely hypothetical, and it would have been more applicable several years ago than now—we have an Army that we can't move because we don't have airlift and sealift.

We have a lot more equipment and men than we can move to any spot in a reasonable time when we think it is necessary. So, therefore, we will cut the size of the Army and increase the airlift and sealift, and then build back the Army 4 or 5 years from now when we have adequate resources to move them.

Where would you expect that kind of decision to come from, Mr. Quetsch, based on your experience? Would you expect something like that to come from the Joint Chiefs?

Mr. QUETSCH. I would expect it to emerge and to appear to come from the Secretary of Defense. I would not expect to see it laid out in a document from the Joint Chiefs, no, but I would expect them to have a big influence on it.

Senator NUNN. Where would you expect major changes, if there were going to be any, in strategy of our military forces, based on experience?

Mr. QUETSCH. Observed them coming from?

Senator NUNN. Where have you observed major changes in strategy coming from? You have had a lot of experience.

Mr. QUETSCH. The biggest one I can think of was a decision to essentially abandon the air defense of the country in the early sixties. I view that—David Chu may see it differently, but I view that as reducing a strategic program for the benefit of general purpose programs.

We were already committed to the strategic retaliatory program. We were going to trim down air defense and the thing we were building up at that time was our conventional force, pre-Vietnam to be able to respond to other—that was Kennedy's policy—to be able to respond other than by massive retaliation.

Senator NUNN. Where did that decision come from?

Mr. QUETSCH. I think it came from a consideration of military risk.

Senator NUNN. Right. Did it come from the military, though?

Mr. QUETSCH. It was articulated, as I saw it, on both sides. There was a consensus. That is my problem. I wish I could be more definitive, but I can't.

Senator NUNN. I am trying to determine how the decision was made.

Mr. QUETSCH. It was decided this way. The Air Force presents a program with a lot of air defense in it. They are operating within constraints. The President says he wants the plus side. Our bosses tell us what we will do, we decide what to do within those constraints. So, we get two decisions.

We will build up the strategic forces. The military, so far as I know, agreed with that and embraced it and they were convinced from what was happening in the world this was the threat we had to be able to respond to, not just the strategic one.

Senator NUNN. You are not saying they, the Joint Chiefs. I am trying to center on the Joint Chiefs as a body. I am not saying whether one Service Chief may have agreed with the President.

Mr. QUETSCH. I think the Joint Chiefs as a body agreed with that. I suspect there was a minority vote from the Chief of Staff of the Air Force on that subject and he had to be run over.

I think the Secretary, I am convinced, but I can't document it, Senator, that the Secretary at the time consulted with the military and got a majority opinion that if you had to cut something, the least likely thing to happen would be a massive bomber attack on the United States, if you had to risk something.

When we have a gap between military needs and resources, we can only resolve that gap in two ways: efficiency (better ways to achieve a solution) or risk. We don't like to talk about risk. Therefore, you won't find it documented for the public because we don't want to scare anybody about the risks we are taking.

There is no defense any of us has ever proposed in my 21 years that didn't involve risk. We just quietly let air defense kind of die. The SAGE systems were phased out, but nobody told the people, you know, we have left you defenseless against this particular kind of attack.

Senator NUNN. Mr. Chairman, my time, I know, is up.

Mr. QUETSCH. I am sorry I am not more specific.

Senator NUNN. The point is that you cannot remember any specific initiative coming from the Joint Chiefs on either major changes in resources or major changes in strategy. If it has come from there, it has been part of a more or less invisible hand.

Mr. QUETSCH. I think what we got from them is what is the highest priority, what they would not cut.

Then, out of the things that they don't scream over, we eventually select some offers.

Senator NUNN. I understand what you are saying. They do participate in ordering the priorities.

Mr. QUETSCH. That is right.

CONGRESSIONAL ACTIONS

Senator WILSON. In terms of being able to react to congressional decisions that frustrate your expectations, do you at DRB conduct a reassessment immediately after adoption of the first budget resolution by the Congress?

Dr. CHU. That has varied. That was a major issue in the spring of 1982 in a dialog with the Senate on what kind of figures the President would support.

The Defense Resources Board was active in offering advice to the Secretary as to what kind of changes were needed in various program areas. I think that is a case-by-case issue, as a practical matter.

Senator WILSON. Why is it case by case? I would think that would be almost built into your procedure?

Dr. CHU. I think we must remember that the congressional resolution is for the Congress' guidance on the President's budget submitted the prior January. Obviously, it may affect what the President does the next January. In that sense, we are all cognizant of it.

Senator WILSON. You are saying by the time the Congress acts, it is too late for you to adjust the figures?

Dr. CHU. We send the budget over in January. You are considering the President's budget request and acting on the congressional budget resolution. That may have an impact.

If we make a revision in the middle of the process as was done in May 1982, that may have an impact. Otherwise, it is part of the general background that we obviously keep in mind as we conduct the summer review.

Mr. QUETSCH. When we look at a new level it is because the President tells us, in that case because Congress tells us to. We don't know whether he has accepted it or not.

We know when he tells us, as in September 1981, bring your budget down, we do it.

Senator WILSON. I think you have answered my question. I would think maybe you would do it, but not talk about it.

Mr. QUETSCH. That is part of it. Each of us does it, but we quite often don't even talk to one another about it because if we talk to one another, we are talking to the public, we find.

Senator WILSON. You mean you don't even think of things you don't want to read about in the press?

Mr. QUETSCH. We think about them. Sometimes we don't talk about them. We sure don't write them down if we are smart.

Senator WILSON. I appreciate your candor.

SHIFTS IN DEFENSE POLICY

Pursuing the point that Senator Nunn was asking about, what about the so-called missile gap of the early sixties?

Mr. QUETSCH. How did I get myself into this one?

Senator WILSON. As an example of the kind of thing he is interested in where a major shift in defense policy emanated.

Mr. QUETSCH. You know, your major shifts emanate from the perception of the world out there.

The biggest major shift that we have had in recent years is the requirement to respond to a threat in Southwest Asia. The result of conditions in Southwest Asia are presented to us by intelligence, and as we react and decide what is within our ability to do, we accept the risk but also take some response to minimize risk.

The missile gap was the same sort of thing. There was an administration which didn't view it that seriously based on its intelligence, and it had a lot of intelligence resources.

Senator Kennedy, who was campaigning, said there was a missile gap. It wasn't as bad when he got in and he had access to intelligence that he had not had when he was outside campaigning.

Are you asking how did the system respond to that? I think basically by educating the incoming Secretary of Defense.

TECHNOLOGY AND PPBS

Senator WILSON. Let me ask you a different question.

Having been there 21 years, is it your view that there is a satisfactory link between R&D and a radical change in strategy? What are more or less institutionalized decisions as a result of having been long embedded in the process of PPBS?

Mr. QUETSCH. I am not sure I understand the question. Can the PPBS respond to opportunities presented to it by technology and does it invest enough in technology?

Senator WILSON. Can it react to a technological breakthrough?

Mr. QUETSCH. Yes, I think it can.

Senator WILSON. If one of the national laboratories, for example, determines that a technology offers an opportunity to abandon, in midcareer, several weapon systems and that it can come up with something better, is there any institutional impediment?

Mr. QUETSCH. PPBS is an arbitrarily defined system beginning with the development of a plan and ending with the submission of a budget to Congress. That system can respond to technological breakthroughs. Within our larger national resource allocation process, though, there are some impediments.

Contractors who are building those older systems, if you will, will resist. A debate has to go on before DOD can really start pushing a new technology, selling the American people. Democracy is inefficient, and a democratic government is inefficient and was designed to be so as to protect our freedoms, and we pay a price for that.

It is our human nature, and a natural tendency of some people, to distrust technology, and there is a tendency on the part of other people to protect it.

On balance, though, I think the guy with the technology can bring it forward and offer it, and if it responds to a need, if he can convince somebody that it will respond to a need, I think that PPBS as we have defined it and discussed it today within the Department is really not an impediment.

Again, you always have people resisting change, and what have you, but the system itself is responsive.

Dr. CHU. An important element is the structure of the Defense Resources Board and other mechanisms that give the Secretary of Defense the benefit of views from a wide variety of sources.

The Under Secretary of Defense, Research and Engineering and his principal deputies are all members of the Defense Resources Board.

Dr. Cooper is head of the advanced research program and provides support for advanced technology. He is there and can offer advice and has done so on several occasions.

I recall vividly an example along the line you were interested in where a program was proposed and he said quite bluntly, "That is retrograde technology, we can do a lot better than that."

That had a big influence on the way the decision came out. By creating a mechanism to give voice to a wide variety of viewpoints in front of the man who makes the decision, I think you can build in checks and balances that allow you to make the appropriate use of technology at the time.

Senator WILSON. Gentlemen, thank you very much. I will conclude by saying I am heartened by your report and also by the reports I am getting from the service Secretaries. They think the process is much improved. There is scarcely anything that can be more important, given the kind of budget restraints we are facing, than the need to maintain and increase our security capability. So, thank you for the good work you are doing.

I think this will conclude today's meeting. With thanks, you are excused.

Mr. QUETSCH. Thank you, sir.

[Whereupon, at 11:29 a.m., the committee adjourned, subject to the call of the Chair.]

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